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COLONIAL OFFICE

Money in British East Asia

by

FRANK H. H. KING, M.A. (Oxon.)

Lecturer in Economics (University of Hong Kong)

Colonial Research Publication No. 19

LONDON

HER MAJESTY'S STATIONERY OFFICE

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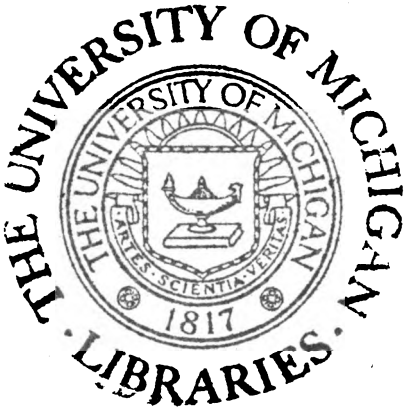

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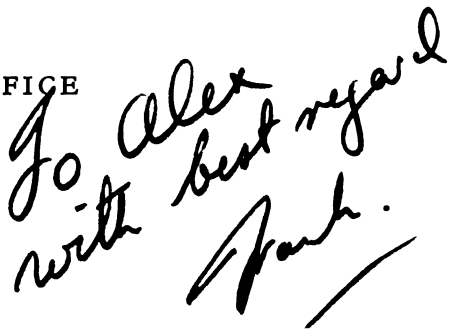

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COLONIAL RESEARCH PUBLICATIONS

This series is intended for the publication of research studies by persons who have been engaged on research in the Colonial sphere financed from Government sources. As these studies are of a personal character, the views expressed are those of the individuals engaged in the research and not of any Government authority.

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PREFACE

The post-war monetary organization of certain British colonies has been subjected to attack on two fronts. First, the increasing sterling balances of the colonies, balances which the colonial currency funds form an important part of, have been cited as evidence that the United Kingdom's assistance to the undeveloped colonies is, at best, mythical, and, at worst, a sham. Secondly, the close financial ties which the colonial currency systems create between the colonies and London is challenged on the grounds that they prevent real economic freedom from following upon the hard-won political concessions granted by the United Kingdom. These attacks have had their theoretical exposition and rebuttal in a series of notes published in the *Economic Journal* and elsewhere[1], and they lead generally to proposals for a less than one hundred per cent. reserve for colonial currency and for the establishment of central banks in the more economically advanced colonies.

The more sympathetic writers, e.g. Ida Greaves, and the anonymous author of *Monetary Systems of the Colonies* have been unable to satisfy the critics. This may be in part due to the fact that, although colonial monetary systems appear similar, they have, in fact, important differences which make generalities extremely dangerous. The value of W. T. Newlyn and D. C. Rowan's work on Africa stems from their recognition of that fact and from their success in discussing the monetary problems in each colony as separate problems which, obviously, have certain matters in common.

The research for this study of the monetary systems of Malaya, British Borneo, and Hong Kong was undertaken in 1954, although some attempt has been made to keep the material current until the final draft was submitted to the publisher. Both Malaya and Hong Kong have highly developed banking systems, and the conclusions reached in this essay are not necessarily, therefore, applicable to the monetary systems of other colonies. Malaya—both the Federation and Singapore—is in the process of vital political change, and this change focusses attention on the second of the two attacks, the relation of economic to political freedom under the present monetary system. Hong Kong on the other hand has an entirely different set of problems created by its traditional role as the entrepot for the China trade and by the existence of an open money market.

Before examining the effect of recent political and economic changes in the area, a historical examination of the colonial currency system, as exemplified in Malaya and Hong Kong, has been undertaken[2]. This has been followed by a full description of the working of the currency board system in Malaya and, as modified, in Hong Kong. Finally, certain suggested changes are considered. In general, the conclusion is that the attacks on the system as it applies in British East Asia are unjustified.

It may be that, in an attempt to give a complete account of the currency board system, the exposition is at times too detailed. Colonial monetary problems have, however, been denied that elementary and exhaustive exposition which most standard economic problems receive in college text-books, and this may be one

[1]See the bibliography, p. 126.

[2]Unfortunately, I did not have the opportunity of examining the records relating to the currency issue of the Chartered Company of North Borneo.

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reason why the notes in the *Economic Journal* have not been, in my opinion, entirely successful. A second reason for the detailed discussion of matters which some experienced persons may consider obvious is the expectation that this essay may be useful to students and non-economists in the territories of Malaya, British Borneo, and Hong Kong.

Since the preparation of the first draft in late 1954, the International Bank Mission report has been published. It seems therefore unnecessary to repeat an exhaustive survey of the Malayan economy before proceeding to a discussion of monetary problems. Those unfamiliar with the economic problems of Malaya are referred to several readily obtainable works on the subject, for a discussion of money and banking must always follow a knowledge of other aspects of the economy:

United Nations, Economic Commission for Asia and the Far East. *Economic Survey of Asia and the Far East*, 1955. Bangkok: E.C.A.F.E., 1956.[1]

International Bank Mission (Chief of Mission: Sir Louis Chick). *The Economic Development of Malaya*. Singapore: Government Printer, 1955, and Johns Hopkins University Press, 1955.

Annual Reports of the various colonies, the Federation, and Brunei.

Ingrams, H. *Hong Kong*. London: H.M.S.O., 1952.

Dobby, E. H. G. *South-east Asia*. London: University of London Press, 1953.

Commerce, Industry, Finance Directory. Hong Kong: Department of Commerce and Industry, 1955.

A serious problem arises in presenting a descriptive essay dealing with an area undergoing rapid change. The changes may invalidate many of the comments or make large sections of the work irrelevant. In this case, changes will merely extend the section of the essay which is now historical until it includes the entire work!

Wherever possible the source of information has been footnoted, but as so much material was obtained at interviews with officials and bankers in the area, the following list of acknowledgements is not only a matter of courtesy to those persons who have been so helpful to the author, but also a guide to the reader as to the authority for many of the factual statements and the inspiration for much of the analysis. I should, in general, like to express my sincere appreciation for the whole-hearted co-operation I received from the Colonial officials concerned, from members of the banking community and from fellow economists. The research in Malaya and Sarawak was sponsored by the Colonial Economic Research Committee and was financed by a grant from Colonial Development and Welfare research funds.[2]

Those with whom I discussed the problems referred to in this essay and to whom I am so personally indebted include: The Hon. W. C. Taylor, Chairman of the Board of Currency Commissioners in 1954; the Hon. E. Himsworth, Financial Secretary of the Federation of Malaya; Dr. F. C. Benham, economic adviser to the Commissioner-General for the United Kingdom in South-east Asia; Sir Sidney Caine, Vice-Chancellor of the University of Malaya; T. H. Silcock, professor of

[1]During August and September, 1955, I was employed by the E.C.A.F.E. to prepare draft chapters on 'Malaya, British Borneo' and 'Hong Kong' for this survey. The final published version is, of course, the combined work of the Secretariat.

[2]The Colonial Economic Research Committee has also sponsored the monetary researches of Dr. Greaves, Mr. Newlyn and Mr. Rowan referred to above.

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economics in the University of Malaya; Professor R. S. Sayers; the Hon. Tan Chin Tuan, the Oversea-Chinese Bank, Singapore; the Hon. G. A. P. Sutherland, manager of the Chartered Bank of India, Australia, and China and a member of the Currency Commissioners in Singapore; Mr. J. A. D. Morrison, manager of the Hongkong and Shanghai Banking in Singapore, and Mr. M. W. Turner of the same branch; Mr. A. M. R. Curry, manager of the Kuching Branch of the Chartered Bank; Mr. H. M. Cockle, Accountant-General of Sarawak, and his assistant, Mr. Ee Lai Watt; Mr. Donald Cape of the Commissioner-General's Office; and Mr. J. M. H. Hill, Secretary to the Currency Board. The Registrar of Malayan Statistics was kind enough to provide the statistics for many of the tables at the end of this essay, and I especially appreciate the work which went into their preparation. Mr. Ng Kwok Leung assisted in the preparation of the tables and Miss Joyce Osmund helped with the typing.

The chapter on Hong Kong is a correction of my booklet on the monetary system of that colony, a correction which is the result of my Malayan research. I should like to mention here the help I received in the preparation of that work: Mr. J. J. Cowperthwaite, Deputy Financial Secretary (Economics); Mr. J. R. Jones of the Hongkong and Shanghai Bank; Mr. Lamson Kwok of the Wing On Bank, and the National City Bank of New York, the Chartered Bank of India, Australia and China, and the Mercantile Bank of India branches in Hong Kong.

I also acknowledge my indebtedness to those, who, in addition to several of the persons mentioned above, were kind enough to read the manuscript; many of their comments and corrections have been incorporated. I am especially grateful to Dr. Ida Greaves, Mr. A. Hazlewood, Mr. E. F. Szczepanik, and Mr. W. J. Barber.

Hong Kong, January, 1956. FRANK H. H. KING

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Chapter I

THE HISTORY OF MONEY IN MALAYA AND BRITISH BORNEO

Introduction

The history of money in Malaya and British Borneo can be divided conveniently into periods which correspond roughly to the periods of its political history. The divisions cannot be exact because the political status of the various sections of British South-east Asia changed in relation to each other. The monetary history of the area is, in part, several histories—of the Straits Settlements, of the Malay states, of the Raj of Sarawak, of Labuan, and of British North Borneo—and although the lead in monetary development comes from the more economically advanced Straits Settlements, the method and timing of the adoption of changes emanating from this colony is worthy of separate study and emphasis.

This is essentially a British monetary history, and this chapter is not concerned with the details of Spanish, Dutch, and Portuguese moneys predating the first settlement of the East India Company on Prince Edward Island in 1786, nor is it concerned with the native forms of money in the Malay states before their adoption of the dollar or in the primitive moneys of Borneo.

This history begins, then, with the Penang Settlement and follows the spread of British influence to Malacca and Singapore—the three original Straits Settlements. The first period of the history ends with the transfer of the Straits Settlements from the jurisdiction of the India Office to the Colonial Office in 1867. In that year the currency of the Straits became identical to that used along the China coast, and the whole of East Asia, with the exception of the Netherlands Indies, came within the domain of the dollar Mex.

The falling price of silver forced the Straits Settlements Government to reconsider its position. While Hong Kong decided to remain on silver, Malaya was not so closely connected with China that the arguments for a continuing silver standard could offset the obvious disadvantages of fluctuating exchanges on London. From 1903 to 1906 the Straits instituted various reforms which had the effect of putting Malaya on a gold standard, though gold coins did not themselves circulate as currency. From 1906 to 1923 various changes were made in the relationship of the Straits dollar to sterling, and, by 1923, it was recognised that the Straits were actually on a sterling-exchange standard.

After 1923 the Straits currency was a source of profit to the Colony's government, and those other areas which used the Straits dollar were anxious to participate. Unable to share in the currency profits, Sarawak instituted its own, but the Malay states entered into negotiations with the Straits which resulted in their participation in that colony's currency activities by agreement of 1938. With the changed status of British Borneo after the war, it was only reasonable that these areas too should participate, and since January, 1953, the Malayan dollar has been the sole legal tender in, and the equal responsibility of, all the territories of British South-east Asia.

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These currency changes reflect the changing needs of the Straits Settlements and of the Malay States. They follow the general pattern of monetary development in the Far East and are in accordance with wider Imperial currency policies. In some cases the Straits Settlements took the lead; in others, the Currency Board system for example, the lead came from other colonies. Whether or not the system as evolved is now suitable for a Malaya on the eve of political self-government is a problem which will be examined in another chapter. In the following history it will be sufficient to give the framework of the system as it evolved, the better to examine certain allegations made against it, the better to examine its present effects upon Malayan currency. In this way the problems and choices of today's financial statesmen can best be evaluated.

The East India Company in Malaya: 1786-1858
The India Office and Malaya: 1858-1867

The period from 1786, when the first East India Company coin for Prince Edward Island was struck, to 1837, when the Bengal Government made the rupee legal tender in the Straits Settlements, was a period in which many coins circulated but in which dollars were probably the most common unit of account. Various kinds of dollar coins, popular in the China trade, were accepted as current coin by weight rather than touch.

In Penang merchants accepted dollars by weight and kept account in Spanish dollars. Current coins were the East India Company dollar coin mentioned above and the Carolus or pillar dollar of Spain[1]. In Malacca in 1818 the most common unit of account was the rix-dollar—an imaginary money—which was then valued at £0-3-4 and fluctuated in value with relation to the Spanish dollar with a 25% to 40% premium on the latter. The rix-dollar was divided into 8 schillings of 48 stivers. Current coin were rupees, Dutch schillings, dubbeltjes, Dutch guilders, two-stiver pieces, and doits, reflecting the India-China nature of Malacca's commerce and the Dutch background of her history.

Following a settlement with the Dutch in 1824, the Straits Settlements were formed as a political entity in 1826 under the control of the Government of Bengal. The capital of the Straits Settlements was, until 1837, Penang.

In 1835 the Government of India passed legislation in its various territories in an attempt to standardize its units of account and its current coin and place the currency of all the territory of the East India Company on a silver standard. In 1837, the year in which the capital of the Straits Settlements was transferred to Singapore, the Bengal Government enforced this new legislation in the Straits Settlements. The rupee became legal tender, although, until 1847, subsidiary coinage was unaffected, and the dwindling supply of doits and Sumatra kepings, circulation of which in Singapore was objected to by the Dutch, was supplemented by merchants' tokens. The circulation of Dutch coins was forbidden in 1848, and by 1853 they had all but disappeared. 1855 Indian legislation forced Indian subsidiary coinage on the Straits Settlements, including the half pice and pie. By the final Act of 1855, the Indian currency system was confirmed in the Straits Settlements.

The Singapore Chamber of Commerce reacted immediately to the first enforcement of the legal tender laws, declaring on 24th October, 1837 that the attempt to

[1]Robert Chalmers, *A History of Currency in the British Colonies* (London: H.M.S.O., 1893), Chapter XXXVIII.

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make the rupee legal tender was "highly injurious to the commerce of the said Settlements, besides entailing considerable expense to the Government".[1]

Another typical comment, made by the Singapore *Free Press* on the 1854 bill, is quoted:

> "The present bill is but a step further in the same direction, and it behoves the community of this place . . . . to lose no time in offering their determined opposition to progress of these mischievous and most ill-judged measures".[2]

This appeal did not fall on deaf ears, for there is little doubt but what the Acts of 1835, 1844 and 1854, all of which attempted to establish Indian currency in the Straits Settlements, were dead letters. Only the Straits Settlements Government itself kept accounts in rupees and Indian subsidiary coinage. In 1856 the House of Lords was informed, probably through the report of Sir Hercules Robinson, that all transactions in Singapore, including court cases, were calculated in dollars—by then the ubiquitous Mexican dollars—and dollars were current coin.

In view of the fact that the provisions of the currency laws were disregarded by all except the keepers of Government accounts, it may be difficult to understand why there was such an outcry against the laws. There was always the chance, of course, that steps might be taken to enforce the laws, but this was extremely unlikely, since most Government officials were fully aware of the impossibility of such a step. There were, however, day to day confusions, and Chalmers sums up the situation as follows:

> "In short, the whole system under which coins not in circulation are declared by law legal tender, and the public accounts are required to be kept in the denomination of one currency, whilst the real transactions of both the Government and the public are conducted in another, is unsound, and productive of nothing but needless labour and confusion".[3]

In 1857 the Court of Directors of the East India Company ordered complete resumption of the use of the dollar currency in all Straits Settlements Government transactions, but not until 1867 did the Straits have what its businessmen considered to be a sound currency system.

The use of dollars was not without its problems, one of the most important of which was their foreign origin. The Mexican dollar was the successor of the Spanish pillar dollar—the piece of eight—and was first minted in 1824. During the latter half of the nineteenth century it had the distinction of being the most widely circulated coin in the history of the world. It was circulating throughout the two American continents, in the West Indies, in the Pacific islands, and Japan, and in Asia from Siberia to the tip of Malaya. But it was minted in Mexico, under Mexican control. Its supply could be checked, limited or stopped or its silver content debased without warning. Singapore merchants and the Straits Settlement Government petitioned for a dollar to be minted under British control, citing as a precedent the dollar originally minted by the East India Company for Prince Edward Island. The British Treasury turned down the idea of a mint in Hong Kong, perhaps because in the 1850's it was still hoped that sterling could be

[1]Quoted in Charles B. Buckley, *An Anecdotal History of Old Times in Singapore.* (Singapore, 1902), pp. 317–318.

[2]Quoted in *Ibid*, p. 595.

[3]Chalmers, *Op. Cit.*

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effectively introduced as current coin in Hong Kong as rupees might yet be in the Straits Settlements, thus eliminating the need for a dollar of any kind. Singapore merchants did not even consider this possibility, and the *North China Herald* of 1854 echoed the general fear: "Brother Jonathan is bound to have Mexico one of these days";[1] Spanish-America might debase their coinage; there ought to be a British dollar. There was renewed agitation for a British dollar in 1863, the year in which the dollar Mex became legal tender again in Hong Kong.

Banking business had been conducted by merchants in the absence of banks, but in 1840 the Union Bank of Calcutta established a branch in Singapore, followed in 1846 by the Oriental Bank. In 1859 an agency of the Chartered Bank of India, Australia and China was established in Singapore. Under authority of a supplemental charter, the Chartered Bank changed the status of its agency to that of a branch in 1861. This change enabled the bank to issue banknotes in Singapore, and, when branches had been established in the other settlements to issue notes there also.[2]

Banknotes, denominated in dollars, were first issued in Singapore in 1849 by the Oriental Bank for $5 and $100. Later the Chartered Bank of India, Australia and China, the Chartered Mercantile Bank of India, London, and China, and the Asiatic Banking Corporation issued their own notes. The banknotes were covered by a certain percentage of silver on deposit in the branch of issue and by certain securities approved under the conditions allowing the issue of the notes. These regulations varied from bank to bank.

The position of banknotes was not, despite their obvious convenience, secure, and there was always the possibility of a panic, especially among the smaller Chinese merchants who held no bank account. The failure of certain commercial houses in Singapore was the immediate cause of the panic of May, 1865 when banknotes passed at a 3 or 4% discount in the bazaar. In the ensuing run on the banks, cash balances were drawn down dangerously, but by the second day more responsible Chinese merchants had succeeded in quieting the small holders of banknotes. It was during this crisis that the Asiatic Bank began its issue of notes.

The original note issue of the Chartered Bank was $51,000 in post-bills issued in February, 1860 while the bank in Singapore was but an agency. With the issue of proper notes payable to bearer on demand, the previous issue was withdrawn. By 1866 the note issue of this one bank had risen to $250,000, when a financial crisis, which forced the closing of the Asiatic Bank, reduced public confidence in the exchange banks. The Chartered Bank's note issue was reduced to $40,000.

Demand deposits were never important in the business of the exchange banks or in the money supply of the Straits Settlements during the period under review. Money was, for the most part, banknotes and current coin—none of it legal tender, despite the fact that tax liabilities were calculated in dollars.

The history of money in the British Crown Colony of Hong Kong during this same period bears a striking resemblance.[3] The two proclamations of Hong Kong's Governor, Sir Henry Pottinger, in 1842 established the "Mexican and other republican dollars as the standard in all government and mercantile transactions",

[1]Quoted in Buckley, *Op. Cit.*, p. 601.

[2]See Compton Mackenzie, *Realms of Silver* (London: Routledge and Kegan Paul, 1954). Chapter IX contains a description of banking development in the Straits Settlements taken from the records and papers of the Chartered Bank.

[3]Cf. Chalmers, *Op. Cit.*, and pp. 101-106.

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and fixed the rate of exchange between dollars and rupees and between dollars and cash (the copper coins of China). But an 1844 Order in Council revoked these proclamations and established the East India Company's Gold Mohur and rupee as the current coin. The exchange rate with sterling was fixed. In 1852 Hong Kong was placed by law on a gold standard effective the following year, with sterling as the unit of account and with British silver coins given limited legal tender status. As in the Straits Settlements these regulations were a dead letter, for the trade and business of Hong Kong continued to be carried out in dollars and fractions thereof. By 1853 the Mexican dollar had established itself over all other dollars as the standard coin, and in the following year, the Chief Justice of Hong Kong gave this decision:

> "When contracts were made in dollars, payment must be made in such coins and not in those specified in the Queen's Proclamation of 1844".[1]

Hong Kong was, in fact, on a silver standard. Final recognition of this fact was delayed until 1865 in anticipation of the opening of the new mint in 1866. This date marks a division in the monetary history of both Hong Kong and Malaya.

Malaya on a Silver Standard, 1867-1903

The Legal Tender Act of 1867 was the reaction of the Straits Settlements against the controls and interference of the East India Company and the India Office. It was one of the first acts of the Straits Settlements Legislative Council under the new political arrangements which had resulted in the transfer of the Settlements to the Colonial Office. So anxious were the legislators to act, and so much was the local government in agreement, that the law was passed before approval had been received by the Secretary of State—for currency ordinances require such prior approval. The result was that an Imperial Order in Council which had been drawn up by the Home Government to order the Colony's currency was, in fact, never promulgated.

Act No. IV of 1867 repealed the Currency Act of 1847 (No. 6), thus discontinuing the legal tender status of rupees and other Indian coins. In their place dollars "issued from Her Majesty's Mint at Hong Kong, the silver dollar of Spain, Mexico, Peru, and Bolivia, and any other silver dollar to be specified from time to time by the Governor in Council, shall be the only legal tender". In addition certain silver and copper subsidiary coins were made limited legal tender. This act was followed almost immediately by No. V of 1867 which decreed that all accounts were to be kept in dollars and fixed the exchange rate of $100 to Rs220.

By an Order in Council dated January 17th, 1874, the American Trade Dollar and the Japanese silver yen (minted on the machinery sold to the Japanese upon closure of the Hong Kong mint in 1868) were added to the list of legal tender and current coins. In 1890 these arrangements were modified by making the Mexican dollar of 902·7 millesimal fineness the standard coin. Provisions similar to the 1867 Act made it possible for the Governor in Council to declare other coins unlimited legal tender in addition to the standard coin, and, in 1890, the American Trade Dollar and the Japanese silver yen together with the Hong Kong dollar and half-dollar were all given this unlimited legal tender status. At the same time there were minted Straits Settlements half-dollars (900 fine) and subsidiary silver coin (800 fine)—these latter were made legal tender to the limit of two dollars; copper and other subsidiary coins were made legal tender to the extent of one

[1]Quoted in Chalmers, *Op. Cit.*

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dollar. By Ordinance No. 2 of 1891 importation into the Straits Settlements of coins not legal tender was forbidden.

The United States ceased minting the American Trade Dollar in 1878, and this dollar ceased, by Order in Council, to be legal tender in the Straits Settlements in 1895. Japan used the indemnity she gained from China in the First Sino-Japanese War to establish a reserve for a gold standard, and the Japanese silver yen was demonetized in 1898. But already the British trade dollar was being minted in Bombay.

The Sherman Silver Purchase Act was repealed in 1893 and this action of the United States precipitated a fall in the price of silver. Since the high cost of silver had made it impossible, according to the British Treasury, for H.M. mints to produce a coin of the fineness and silver content of the Mexican dollar economically, the fall in the price of silver started renewed agitation for a British Trade Dollar.[1] The Herschell Committee of 1893 urged such a step, and in 1895 the first British trade dollars, 416 grains 900 fine, were issued by the Bombay mint. British Asia at last had adequate supplies of a British-produced coin of unlimited legal tender status.

The merchant community now had what they had demanded all during the period of the Colony's attachment to India—the silver dollar of the China Coast trade. But silver coins themselves were not so necessary or desirable, especially as the size of mercantile transactions increased and the inconvenience of silver became more obvious. Use of banknotes on a wide scale required a certain understanding upon the part of the money-using public, for, in a community liable to panic, paper money can be dangerous, as the events of 1865 and 1866 had shown. However, Chalmers, writing in 1893, states that the custom of chopping coins did not exist in the Straits Settlements and that coins were accepted by tale as in Europe.[2] Weight and fineness were not so suspiciously examined. Under these circumstances there was every reason to expect that the curcilation of banknotes would increase.

The Asiatic Bank had failed in 1866; the Oriental Bank, in 1884. This left the note issue in the hands of the Chartered Bank and the reorganized Chartered Mercantile, now known as the Mercantile Bank of India, Ltd. In 1881 under authority of Ordinance X of the Straits Settlements, these two banks were joined by the Hongkong and Shanghai Banking Corporation, the head office of which was in Hong Kong. The provisions of this ordinance reflect contemporary thinking on the subject of banknotes.

The Hongkong and Shanghai Banking Corporation was authorized to issue notes of $5·00 and multiples thereof, but in no case exceeding the paid-up capital of the bank. The notes were to be payable in current coin at the place of issue, i.e. Singapore or Penang. The reserve for the note issue was coin or bullion to at least one-third of the value of the notes actually issued in that settlement. Total coin or bullion reserves held by the Bank against its total note issue had to equal two-thirds of the total value of that note issue as laid down in the relevant Hong Kong ordinances. Shareholders had unlimited liability towards the note issue, although this was no serious concern, since the note liability was to be paid off first and in full. The bank had also to furnish the Government with monthly figures with respect to the note issue and these figures were published in the *Gazette*.

[1]Buckley, *Op. Cit.*, p. 601.
[2]Chalmers, *Op. Cit.*, p. 387.

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In 1898 the Hongkong Bank increased its Singapore note issue so that the total of its banknotes in circulation everywhere was $10,000,770, or $770 over the paid-up capital. This 'excess note issue' as it came to be called was allowed the bank under the Hongkong and Shanghai Bank Ordinances Amendment Ordinance, No. 6 of Hong Kong, 1898, and a 100% bullion or coin reserve was required to be held against it. This piece of legislation protected the bank in the Colony in which it was incorporated, but it was still technically violating the provisions of Ordinance X of 1881 mentioned above, which was not amended until the following year.

The size of the banknote issue can be seen from the following table:

Banknotes in the Straits Settlements, 31st December, 1891

Straits Dollars

Bank	Singapore	Penang	Malacca
Mercantile . . .	573,095	428,875	179,400
Chartered . . .	1,328,439	1,496,873	
Hongkong and Shanghai Bank . . .	1,396,557	546,594	
Total . .	3,298,091	2,472,342	179,400

Source: Chalmers, op. cit. p. 388.

A shortage of coin for change and the consequent severe inconvenience felt by the public, led to demands in the Straits Settlements for a one-dollar note issue. In 1881 the Legislative Council of the Straits Settlements appealed to the Lords of the Treasury to reverse their decision on one-dollar banknotes. In 1885, they appealed again despite the decision to allow a *Government* one-dollar note issue, a decision which had not been greeted with the enthusiasm one might have expected had public inconvenience been the only concern. The Chamber of Commerce, for example, opposed the Government note issue concept as late as 1896 on the grounds that it interfered with the bank's note issue.[1] But larger issues were at stake than the simple question of a one-dollar note, and in the following year, the Chamber of Commerce approved the idea of a Government note issue.

In fact, the question of the one-dollar notes seems to have been forgotten in the rush of new problems which resulted from the continued fall in the price of silver. The first one-dollar currency notes were not issued in the Straits Settlements until 1906; they were not issued in Hong Kong, where a similar controversy had arisen —until 1935.[2]

There was certainly a precedent for a colonial government note issue. When the Mauritius Bank failed in 1847 a government currency board, composed of commissioners of currency, was established two years later to manage a government note issue. The situation in Mauritius was complicated, however, by the fact

[1] *Cf.* W. Makepeace, Dr. G. E. Brooke, and R. St. J. Braddell (Eds.), *One Hundred Years in Singapore* (London: John Murray, 1921), 'Banking in Singapore', II, pp. 174–180.
Cf. also *Ibid*, 'The Commerce and Currency of Singapore', II, pp. 22–25.

[2] In 1872 the Hongkong and Shanghai Bank had been authorized to make a small issue of one-dollar notes by the Governor using his emergency powers. See p. 103.

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that the notes of commercial banks had depreciated. A similar series of events occurred in Ceylon induced by the failure of the Oriental Banking Corporation in 1884. These precedents were the result of crises, and there was no banking crisis in the Straits Settlements.

The first Straits Settlements government currency notes were issued in 1899 under the authority contained in Ordinance VIII of 1897, which also established the Board of Commissioners of the Currency to manage the Currency Fund. The first notes were actually dated '1898' and bore the following inscription, "The Government of the Straits Settlements promises to pay the Bearer on Demand at Singapore xxx dollars for value received".[1] The Ordinance provided a simple system of reserves compared with later enactments. Basically, the legal tender reserve was to be at least two-thirds of the value of the currency notes issued; the remainder was to be covered by approved securities.

The Chartered Bank's authority to issue notes expired in December of 1904; the authority of the Hongkong and Shanghai Bank in August of 1908. Ordinance XIV of 1899 made the Government's intentions clear, stating that no banknote was to be issued payable to bearer on demand. Only government currency notes and those authorized already or subsequently by the Government and the Secretary of State were to be allowed.

One particularly difficult controversy had to be settled before the first issue of Straits Settlements notes. What was to be the role of the native states in the new issue? Since 1873 the British Government had taken an interest in the activities of the native states to the north of the Colony of Singapore and in that year had begun active intervention in the peninsula. The first result of the new policy was the Treaty of Pangkor with Perak in 1874. In 1895 Perak, Selangor, Negri Sembilan, and Pahang were constituted into a Federation, and the British Residents in each state were subjected to a Resident-General.

It was only natural, since Chinese emigrated from the Straits Settlements into the native states and since commerce was through the British ports on the coast, that the currency in general use in the Colony should also be used in the interior. By 1888 the Chartered Bank had branches at Taiping and Kuala Lumpur.

A banknote represents an interest-free loan to a bank, a loan which the bank can make use of to the extent that it is allowed by the statutory provisions for legal reserves and, of course, its own prudence. With a Government note issue, the profits, if any, would accrue to the issuing government, and the immediate question was, "Why should the Straits Settlements Government issue the currency for Malaya on its own—thus alone receiving the profits?" The Resident-General of Malaya suggested that the native states be allowed to participate in the note issue, and in this the Governor of the Straits Settlements concurred.

Joseph Chamberlain, then the Secretary of State for the Colonies, over-ruled the authorities on the scene in these words:

> "I regret that I cannot approve the several amendments suggested for the purpose of introducing the Governments of the Native States, side by side with the Government of the Straits Settlements, as co-managers and guarantors of the note issue. It would be ultra vires for a Colonial Law to pledge the revenues of the Native States; and it would, in my opinion, lead to unnecessary complications, if the Governments of the Native

[1]The Commissioners' Office in Singapore maintains a specimen book in which an example of this first issue may be found.

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> States were in any way made legally responsible for the Note Issue. Among other reasons difficulties would arise in dividing the profits, which may ultimately accrue, between the different Governments concerned, as it would be impossible to discover in what proportion the notes have been actually used in each State and in the Colony respectively. I therefore consider it better that the Colonial Government should alone guarantee and control the note issue, and should alone receive the profits, if any, which may accrue therefrom, without any formal intervention of the Native States".[1]

The difficulties which Chamberlain listed were real, and it is interesting to notice how they were overcome with the establishment in 1938 of the Board of Commissioners of the Currency, Malaya. The reply of the Governor of the Straits Settlements to Chamberlain proved more prophetic.

> "On behalf of the Confederated States the Resident-General has reluctantly acceded to the proposal to omit all mention of those States in the Ordinance, as laid down in your paragraph 4, though he has no doubt that the difficulties pointed out might be surmounted by future agreement".

Enactments of the native states brought the legal tender status of coins into line with that in the Straits Settlements, and until 1938 the ruling of Chamberlain held.

The Straits Settlements were then to 'go it alone', and Ordinance No. IV of 1899, which became effective in 1900, is the real basis for all subsequent currency legislation. It is worthwhile, therefore, to examine its provisions in detail.

First, the new ordinance repeated some of the provisions of the 1897 enactment. There was to be, for example, a Board of Commissioners of the Currency, and they were to issue currency notes which were legal tender except when tendered by the Commissioners of the Currency or by a bank authorized to issue notes in the act of redeeming those notes. Secondly, the provisions concerning reserves were more specific and complex. The ordinance established a Note Guarantee Fund. Two-thirds of the Fund must be in legal tender coin, but provision was made for this proportion to be reduced to one-half if the Commissioners of the Currency agreed. Part of the Note Guarantee Fund, i.e. that part not consisting of legal tender coin, was kept under two separate headings—'Investment Fund' and 'Depreciation Fund'.

The Investment Fund was to consist of Indian securities or other authorized securities up to half the value of the note issue, depending, of course, on the size of the legal tender coin section of the Note Guarantee Fund. The Depreciation Fund at the time of its inception was, by its very nature, without funds. It was to receive annually from the income of the Investment Fund an amount equivalent to one per cent. of the cost price of the securities in that fund until the Depreciation Fund reached 10% of the value of the Investment Fund.

The income of the Note Guarantee Fund—especially that from the Investment Fund which is part of the Note Guarantee Fund—was to be used to meet the expenses of the Commissioners, to be paid into the Depreciation Fund, and, when that Fund had reached the 10% level as mentioned above, any further income was to be paid into the general revenue of the Colony.

[1]Dispatch from the Secretary of State to the Governor of the Straits Settlements, dated 22nd May, 1896, par. 4.

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If, on the other hand, the market value of the securities plus the Depreciation Fund was less than the amount of coin taken for investment from the Note Guarantee Fund, the difference was to be made up from the general revenue. That is to say, if the total backing of the note issue—coin, investments at market value, and coin in the Depreciation Fund—should be less than 100% of the value of currency notes in circulation, then the general revenue of the Colony should make good the difference. The minimum backing the note issue can have under this scheme is, therefore, 100%, but it will usually have more. If the securities in the Investment Fund do not depreciate while the Depreciation Fund is being built up from the income of the Note Guarantee Fund, then the backing of the note issue can consist of 50% coin, 50% securities, and 10% of 50% coin in the Depreciation Fund, i.e. 105%. The reserves can never be greater than this unless the securities appreciate, since income is paid into general revenue once the Depreciation Fund is 10% of the value of the cost price of the securities.

While this scheme seems perfectly in keeping with the traditions of sound money, it did have one flaw which caused considerable trouble until corrected in 1923. It was possible that the Commissioners might be paying the income of the Fund into the general revenue of the Colony at the same time as the Government was paying out sums from the general revenue into the Fund. Once the Depreciation Fund reached 10% of the cost price of the securities, i.e. 10% of the Investment Fund, income of the Fund over expenses was to be paid into general revenue. If the market value of the securities had fallen, however, more than 10%, then the general revenue of the Colony would be called upon to make up the difference. It would have been simpler to have conceived of the Fund as a whole; in fact, in 1923 the various 'funds' in the Note Guarantee Fund were consolidated.

A further difficulty arising from fluctuations in the price of silver—which could cause offsetting changes in the value of the coin and bullion section of the Fund—was not a factor while the Colony remained on the silver standard.

In January of 1901 gross circulation of Government currency-notes amounted to $6,205,000·00.[1] By 1904 the Hongkong and Shanghai Bank and the Chartered Bank were withdrawing their note issue, and the Commissioners of the Currency were able to state in their report for that year, "The public confidence, including that of all classes of natives, in the Government paper is so great, that it will certainly hereafter represent the bulk of our local currency".

The Straits Settlements had, at the beginning of the twentieth century, a dollar unit of account. Legal tender coins consisted of the Mexican dollar as standard, the British Trade Dollar, and the Hong Kong Dollar. Government currency notes were legal tender except as already noted, and banknotes were well accepted, although on the verge of being withdrawn. The Federated Malay States had identical legal tender provisions, except that the Hong Kong Dollar was not one of the coins specified. Since East Asia outside the Netherlands East Indies used the dollar Mex, or a coin based upon it, there was one currency for one great trading area. The Raj of Sarawak, Java, and Sumatra used Straits Settlements currency notes.

But the Straits Settlements dealt also with Europe, especially the United Kingdom, and Europe had turned to gold. The depreciation of silver in relation to gold presented problems which were to prove greater than the advantages

[1]Figures for government currency note circulation are taken from the annual reports of the Commissioners of the Currency.

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afforded by the unity of Far Eastern currency. When the changes had been made, only China and Hong Kong remained on silver.

Currency Reform, 1903-1906

The Straits Settlements Currency Committee published its report in 1903, and the Government took immediate steps to implement it. The fall in the price of silver had sent the exchange value of the dollar down from an average of 2/2⅛ in 1896—well below the 4/1 which had been set in 1870 by order of the Queen in Council as the rate for the payment of H.M. Forces in Malaya—to 1/6⅝ in 1902. While this decline had, so the Report states, helped trade, it had now gone too far.[1]

Exchange speculation was another factor entering into the Committee's recommendation that the currency of the Straits Settlements should be tied to gold. The burden of the Colony's gold obligations—especially pensions payable in sterling—was increasing, and a Straits Settlements loan of £250,000 was about to be raised in the United Kingdom. The Committee was thinking of the cost of servicing this loan.

In its recommendations the Straits Settlements Currency Committee attempted to change the basis of the Colony's currency without attracting unnecessary attention to the change. If the unit of account remained the same and if the moneys in circulation remained virtually the same, there would be no need to re-educate the public and secure their confidence in something new and foreign. Silver had so long been the medium of exchange in the Far East that the authorities feared any apparent change. It was proposed, therefore, that a new dollar be introduced, but this new Straits Settlements Dollar was to have the same weight and fineness as the Dollar Mex.

When the circulation of the new dollar had reached sufficient proportions, it was to be declared the only legal tender and its export from the Straits Settlements was to be forbidden. Similarly the import of all other coins was to be prohibited. In this way, it was hoped, the value of the Straits Settlements Dollar could be divorced from the value of silver, and at a specified time could be fixed in relation to gold by the enactment of a provision to exchange it for gold at a fixed rate or to give bills on the Crown Agents in London based on this fixed rate.

These were the recommendations adopted, except that the area of prohibition on the export of Straits Settlements Dollars was enlarged to include those areas which intended to use Straits Settlements currency to the exclusion of any other. Thus the native states, Sarawak, Labuan, North Borneo, and Sumatra were included in the unofficial Malayan Currency Area.[2]

The new Straits Settlements Dollar was introduced in October, 1903 and was declared to be the sole legal tender in August, 1904. The first step had been successful; the second step was to secure the appreciation of this dollar in terms of sterling. The 1905 Annual Report of the Commissioners of the Currency shows a steady rise in the exchange value of the dollar from 1/11⅛ in January, to 2/0¼ in July, to 2/2·11/16ths in December. This appreciation the Report ascribes to "a speculative market and the difficulty of getting cover for banking operations owing

[1] *Report of the Straits Settlements Currency Committee*, Cd. 1556, 1903, and the *Minutes of Evidence*, Cd. 1585.

[2] *Cf.* J. O. Anthonisz, *Currency Reform in the Straits Settlements* (London). Anthonisz was Financial Secretary of the Straits Settlements during these important reforms, and his book is an authoritative account and intelligent criticism of them.

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to the closing of the mints to the free coinage of dollars". But the most important causes of the appreciation could not have been forseen by the planners, the Report admits; there had been an important rise in the price of tin, thus increasing the demand for Straits Settlements Dollars at the same time as their supply was being limited, and a rise in the price of silver which affected the value of the Straits dollar even though, after April, 1904, the exchange value and bullion value were no longer identical.[1]

Ordinance No. 3 of 1905 prepared the Straits Settlements currency system for the initiation of a gold standard by the fixing of the dollar-sterling exchange rate. It provided that notes might be issued by the Commissioners of the Currency in exchange for gold received on their behalf by the Crown Agents in London or by the Commissioners in Singapore at a rate of exchange to be notified by the Governor in Council with the approval of the Secretary of State.

These new provisions meant that some changes would also have to be made in the construction of the reserve funds, and a Gold Standard Reserve was established. The gold received once the exchange rate had been fixed—but not, of course, before, since it was by limiting the supply of dollars that its exchange value was to be raised to the desired level—would be used to buy silver to mint into dollars. That is to say, the Currency Commissioners would have to pay out silver dollars from the coin portion of the Note Guarantee Fund in exchange for gold, and they would, if it were required or desired, replace these dollars by using the gold received to buy silver and mint new dollars.

As the exchange value of the new dollars was divorced from the value of its silver content, i.e. the Straits dollar would be an overvalued token coin, there would be a minting profit which was credited not to the Note Guarantee Fund's coin portion but to the new Gold Standard Reserve. Now if dollars were presented for gold, although the silver content of the dollar would not be sufficient to allow the Commissioners to buy an amount of gold equivalent to the set dollar exchange value, yet the value of the silver plus the sum deposited in the Gold Standard Reserve would be sufficient—providing silver did not depreciate.

If silver were to continue to depreciate, the Gold Standard Reserve would have to depend upon more than the reminting profits, and provision was made for the income from the Investment portion of the Note Guarantee Fund to be paid into the Gold Standard Reserve, and, after 1906, the income from the sale and purchase of TT on London was to be included, once expenses had been met.

The main criticism of these arrangements is that, despite the Commissioners' 1904 report quoted above, the main emphasis was on the exchange of dollar coin. The provisions of the 1905 ordinance assumed that gold would be given for Straits Settlements Dollar coins, but actually it was government currency notes which were bought and sold with and for gold. Thus the emphasis on silver in the liquid portion of the Fund was unnecessary, requiring as it did that the Commissioners sell gold for silver to prevent the coin portion's falling below the required minimum and carry the risks involved in a fluctuating market for silver. Originally the coin portion of the Note Guarantee Fund had been designed for nothing more than a silver dollar-paper transfer. The relation of the new currency to gold allowed persons to by-pass the token silver dollar, and the solution was,

[1]It could be safely assumed that the eventual gold value of the dollar would be above the silver bullion value. Hence a high silver price led to speculation and raised the dollar's exchange value higher.

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therefore, to allow gold to be deposited in the coin—now bullion—portion of the Fund. This change was made in 1908.

The rise in the exchange value of the dollar during 1904–5 resulted in a depreciation in dollar value of sterling securities held by the Commissioners of the Currency, a loss which had to be made up from the general revenue of the Colony.[1] The native states were well out of it. The payment was made in January, 1905 and illustrates the problem mentioned above, that it was possible for payments to be made into and from the general revenue at the same time. Later in 1905 it was decided on authority of the Governor to pay all profits of the currency funds into the Depreciation Fund and to suspend payment from the general revenue, although the liability to pay would remain. This was a temporary measure not included in any legislation.

The Straits Settlements went on the gold specie standard in 1906, when the Governor in Council announced the rate referred to in Ordinance No. 3 of 1905, and on 29th February the rate was fixed at $60 equals 7 sovereigns or 1 : 2/4.

To say that the Straits Settlements were then on a gold specie standard is to anticipate slightly the Governor's proclamation effective 23rd, November 1906,

> ". . . . the tender of payment of money in the Colony, if made by sovereigns . . . . shall be a legal tender for the payment of any amount at the rate of seven sovereigns for sixty Straits Settlements dollars . . . Provided that the Straits Settlements dollar shall remain the standard coin of the Colony".

Even then it might be well argued that the Colony was not on a gold standard, but rather a gold exchange standard or even a limping standard.[2] If this objection is accepted, it will be difficult to differentiate the currency system between 1906 and 1914 from that which prevailed afterwards, for certainly the Colony was on an exchange standard after 1914.

Ordinance No. 1 of 1906 stated:

> "Notwithstanding anything in this Ordinance contained, it shall be lawful for the Commissioners to issue Notes in exchange for gold received by the Commissioners in Singapore at a rate of exchange to be notified by an order of the Governor in Council with the previous permission of the Secretary of State, and the Commissioners may invite tenders for the issue of Notes in Singapore against TT in favour of the Crown Agents for the Colonies in London and may at their discretion accept any tender which affords sufficient margin above the rate fixed by such Order in Council to cover all charges, including interest, which may be incurred in remitting to Singapore the equivalent in gold at the fixed rate of Notes issued for such tender".

This ordinance repeated and replaced the 1905 ordinance, but not without making the important change noted above. Although the Commissioners might now do business in London, that is, accept the gold in London for notes issued in Singapore, the rate at which they bought TT was to be related to the cost of transporting the gold to Singapore. In other words the rate of exchange of dollars

[1] Anthonisz in *Ibid*, estimated that a one-penny rise in the exchange value of the dollar meant a $200,000 fall in the dollar value of the currency fund's sterling securities.

[2] The Governor specifically denied that the Straits Settlements intended initiating an exchange-standard in a communication of February, 1906 with E. W. Kemmerer. See his *Modern Currency Reforms* (New York: Macmillan Co.), p. 419.

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on London was to have a ceiling at the gold import point. In September, Ordinance No. XXIII of 1906 enabled the Commissioners to sell TT on London in exchange for notes received in Singapore or to actually sell gold in London, again at rates allowing for the transportation of that gold. Thus a floor on the exchange rate was fixed at the gold export point.

A gold exchange standard has been defined as the maintenance of parity in the value of its currency and of gold by buying or selling, at a fixed price, the currency of some country which is on the gold standard. This does not accord with the intentions of the currency reformers of the Straits Settlements, who definitely pictured the Commissioners as buying and selling gold.

The coin portion of the Note Guarantee Fund was kept in Singapore, to provide the need for the token coins which were, until 1938, full legal tender, that is, the Straits Settlements dollars. This may confuse the issue, but it should be remembered that gold was also held by the Currency Funds and that the value of the gold and silver coin together was sufficient to redeem in gold the silver coins in circulation. The effect of this legislation was to create in the Straits Settlements a currency situation identical to that of a gold specie standard, except that the gold coin, although legal tender, was not in general circulation. The currency notes had a 100% reserve, and, while it is true that this reserve was at least partly in sterling-gold-securities, so were Bank of England notes, and surely England was on a gold standard.

Another criterion by which one may judge whether a country is on a gold exchange standard is to examine if it maintained part of its reserves in foreign exchange or bills on some gold standard country.[1] While it is true that the Commissioners kept part of their currency funds in London in the form of gold and sterling investments, the burden and significance of this was exactly the same as if the gold had been kept in Singapore or the securities domestic. The significant criterion should reflect the effect upon the country of the currency system, and if those effects are the same as those of a country on the gold standard, it would be simpler to say that both countries were on a gold standard.

Over the period between 1908 and 1914 the proper designation for the Straits Settlements currency system becomes more difficult to determine. There was a tendency for funds to be kept in London and for the 'coin'—later the 'liquid'—portion of the currency reserves to be kept in the form of accounts with the Bank of England or even invested on call or in short-term highly marketable securities. The burden of foreign exchange transactions did not change, however, until the gold points were fixed without relation to the cost of moving the gold from Australia—the nearest source—and Singapore. When the gold points were arbitrarily fixed, the Straits Settlements went on a gold exchange standard. When the United Kingdom went off gold, that automatically became a sterling exchange standard.

Straits Settlements Currency to 1938

The new Straits Settlements Dollars were not a popular coin. Intended to satisfy the traditional desire of the people for a silver coin, the new dollar was but a token coin, and the people knew this. They showed an intelligent preference for the government currency notes. By 1907 the new dollars were facing a problem of a

[1]R. G. Hawtrey, *The Gold Standard in Theory and Practice* (London: Longmans, Green & Co.), p. 60.

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different kind. Silver had been appreciating, and the Straits Settlements dollar was about to touch the melting point at 33.13/64*d.* per ounce of silver, i.e. the intrinsic value of the silver was just becoming greater than the face value of the coin.

The Commissioners of the Currency called in the first Straits dollar, which had been the equivalent of the Mexican dollar, and issued a second Straits dollar of 312 grains, 900 fine. The further appreciation of silver caused the second dollar to touch melting point in 1917, but since it was impossible due to war conditions to remint the dollars, the second dollar was recalled and the Government currency notes became inconvertible until 1920, when the third Straits dollar, 260 grains, 500 fine, was minted.[1] The currency report of 1934 recommended that this trouble could be eliminated by discontinuing the Straits dollar as the standard coin, making it limited legal tender, especially since the note issue was so well-accepted. The recommendation was accepted and embodied in the currency legislation of 1938.

In 1938 the native States, the Federated and Protected Malay States, including Brunei in Borneo, were made jointly responsible with the Straits Settlements for the note issue. These problems and the discussion leading up to the 1938 enactment are subjects for the next section of this chapter. The period from 1906 to 1938 divides itself very roughly into three periods. From 1906 to 1914 the new currency system was being tried out and various changes were made as necessitated by events as they occurred. From 1914 to 1923 the nature of the system was fundamentally changed, at least in its theoretical aspects, by the arbitrary fixing of the gold points. The war caused further changes. In 1923 the currency legislation was rewritten and remained largely unchanged until 1938.

Territorial changes in the Straits Settlements and in the areas using Straits Settlements currency during this period should also be noted. The Cocos and Christmas islands were transferred from the jurisdiction of Ceylon to the Settlement of Singapore in 1903, although the currency on the Cocos Islands remained the token coins of the Clunies Ross family.[2] Labuan, which already used Straits currency, was joined with Singapore in 1907, but in 1912 it became a separate Settlement. Sumatra and the Siamese Malay States discontinued the use of the Straits dollar in 1908, precipitating a crisis which will be examined below. The Raj of Sarawak adopted its own currency note issue as its sole legal tender after 1930, and the total circulation of Straits Settlements notes dropped accordingly. Straits currency was in 1938 the legal currency of the Straits Settlements, the Malay states, North Borneo, and the Dutch Riau Archipelago.

Although the TT rate on London had risen in the first part of 1907 to a high of 2/4.3/16, it declined below the gold export point in September and the Commissioners intervened, offering TT on London at 2/3.12/16 and, later in the year, at 2/3.11/16. The Commissioners also sold gold in exchange for currency notes in Singapore. By the end of the year the banks had taken £487,000 in TT and £335,000 in gold, and the exchange rate began to rise again if only temporarily. The Annual Report of the Commissioners notes that the new Straits dollar was not popular.

[1] The authority for the inconvertible currency note was given in Ordinance 18 of 1917 (Currency Note Amendment Ordinance). It was first intended that this third dollar should be 312 grains, 600 fine (1918). As the Bombay mint was overloaded, a delay occurred during which the price of silver rose. In 1920 a new decision was made to mint a dollar 550 fine. Silver reached an all-time high in February of that year. The London bar price of silver per ounce being quoted at 89½ high, and so the final decision made later in 1920 was for a dollar of 260 grains, 500 fine.

[2] See below, p. 61.

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The Commissioners faced the first real test of the new system in 1907 and again in the first part of 1908 when the exchange rate again reached the gold export point, and the Commissioners found themselves called upon to deliver gold in London beyond their resources there. The result was that the Commissioners had to instruct the Crown Agents to raise a loan secured by the Investment Portion of the Note Guarantee Fund. The demonetization of Straits currency in Sumatra and the Siamese Malay states referred to above added to the demand for gold.

The legislation of 1908 begins to take cognisance of the fact that if the Straits were on a gold standard, it was not necessary that they should be. The first provision of Ordinance No. XXVII was to allow gold to be added to the coin portion of the Fund, in recognition of the fact that gold was being surrendered for currency notes rather than Straits dollar coins. The second change allowed the coin or bullion portion of the currency reserves to be held in London by the Crown Agents, in the expectation that most of the Commissioners' exchange business would be transacted by the buying or selling of TT on London rather than the buying or selling of gold in Singapore.

In a further recognition of the fact that most business would be done by TT, the new Ordinance stated specifically that Straits dollars or half-dollars as well as currency notes might be issued in exchange for sovereigns payable in London at a rate not less than the equivalent in sovereigns and "not exceeding a rate which will afford a sufficient margin above the equivalent in sovereigns to cover all charges (including interest) which would be incurred in remitting to Singapore from London such equivalent sovereigns". Similar provisions were made for the sale of sovereigns in London, and thus were set by legislation the upper and lower limits to the possible fluctuation of the Straits dollar. In practice, the Commissioners left the exchange business to the exchange banks so long as the rates remained within the gold points, but the Commissioners stood ready to buy or sell TT on London at those gold points and so kept the rate within these limits.

The gold assets of the Currency Reserve funds depreciated to but 65% of their value between September, 1907 and January, 1909. It is extremely difficult to trace the total amount the Government paid out of general revenue into the Depreciation Fund, since such payments do not appear on the estimates or in the records of the Financial Committee of the Legislative Council, but were made by order of the Governor on the certificate of the Accountant-General.[1] At least two payments were made during the period up to 1917, and they amounted to $1,246,346/59. By 1923, this sum had been refunded.

Between 1912 and 1916 the depreciation of investments seems to have been met out of the general revenue. The Currency Funds as a whole showed an excess of liabilities over assets, but this liability was not made up by funds from the general revenue, except to cover the depreciation of investments as laid down in the provisions for the Depreciation Fund. From 1917 to 1923 the assets of the Currency Funds were greater than the liabilities, although from 1921 to 1923 the depreciation of securities again resulted in the paying in and paying out of funds from general revenue.

The favourable situation after 1916 had its chief cause in the appreciation of silver, but before 1917 this was offset by the fall in the market value of the securities held. In 1917 the appreciation of silver combined with the income of the Fund, the profits on TT transactions, and the income from investments, was enough not only

[1]Anthonisz, *Op. Cit.*, p. 74.

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to offset any fall in the price of the Fund's securities, but also to change the balance so that for the first time in many years the assets were greater than the liabilities. In 1926 the position of the Fund was strong enough for the first net payment could be made to the general revenue of the Colony—it was for $20,000,000. After 1926 the Malay states took a renewed interest in the currency of the Straits Settlements.

Various attempts to combine the accounts of the currency reserves had been unsuccessful, for the Depreciation Fund was, as has been shown, left with the original provisions. A comprehensive Act introduced in 1913 was given two readings and then postponed until 1915 when it was passed by the Legislative Council but never signed by the governor. By 1923 several changes had taken place which needed the cognizance of comprehensive legislation.

In 1913 it was discovered by an unofficial member of the Legislative Council that the Investment portion of the currency reserve funds contained £460,104/3/4 worth of Straits Settlements 3½% Inscribed Stock (1937–67), and as this was contrary to the provisions of the currency ordinances, which provided that the reserve fund should not hold Straits or Malayan securities, he asked why. The reply was that the Crown Agents did not know of the prohibition and had bought without prior clearance, which was, of course, their general custom. Rather than sell these securities, the Straits government undertook to introduce legislation to permit such holdings. In fact, the currency reserve held Straits securities until 1936.

The Crown Agent also purchased £3,000,000 worth of Federated Malay States securities which were floated to enable the Federal Government to undertake the purchase of tin at a time when the London metal market was closed. In this instance at least the Crown Agents were not acting uninstructed. The 1915 Annual Report of the Commissioners shows an additional purchase of Straits stock to the value of £63,829/15/9. Total holdings of Straits stock formed the largest single holding of the Investment portion of the currency funds excepting consols—which were sold for 4½% war loan—and although this broke all currency reserve principles, nothing violent seems to have happened in consequence.

Prior to 1913 the gold points had been stabilized at 2/4.5/16 and 2/3.11/16, but, since gold could be obtained in Egypt or Australia and brought to Singapore at a cheaper cost than from London, the Commissioners lowered the gold import point to 2/4.3/16. The gold export point was adjusted to 2/3¾ reflecting the new export costs of gold to London. The 1/16 of a point variation between the size of the export and import margins is said to be the consequence of calculating on the basis of Australia for imports, London for export.[1] This change is a further indication that the Colony was, in reality, still on a gold standard rather than on an exchange standard. During the Great War, however, the insurance rate increased, and the above rates were clearly inapplicable. Nevertheless, it was decided that stability of the dollar in terms of sterling was more important than maintaining the form of a gold standard. The Commissioners undertook to sell and buy TT on London at the last quoted rates above, regardless of the provisions of the 1905 and subsequent ordinances.

The Colony required above all else stability in exchange rates with London, therefore they needed to be on a sterling exchange standard. While the practical effect of a gold standard remained virtually identical with the effect of an exchange

[1]W. F. Spalding, *Eastern Exchange, Currency and Finance* (London: Sir Isaac Pitman & Sons, Ltd.), p. 171, and Anthonisz, *Op. Cit.*, Chapter VI.

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standard, the Colony maintained the form of the gold standard. When in the emergency of the War this identity could not be maintained, the gold standard was thrown over. In any case, the export of gold from England was forbidden; sovereigns became unobtainable in the Straits Settlements. The exchange standard was a practical necessity.

At the end of the World War the circulation of Straits Government currency notes almost doubled from $93,711,847 gross on 31st December, 1918, to $181,056,222 a year later. In March, 1920 the gross circulation reached a height of $183,212,221 before falling to $101,587,186 at the end of the year. The percentage of active to gross circulation was in 1919 relatively low, suggesting that the banks had transferred funds or were keeping high reserves in Straits currency. The annual report of the Commissioners suggests that the note increase was due to speculation on the post-war exchange rate of the Straits dollar. The arbitrary points fixed during the war emergency had no statutory status. They were not in fact changed, and they were embodied in the 1923 consolidating currency enactment.[1]

The rubber industry made a remarkable post-war recovery so that in 1919 rubber exports from Malaya totalled $189,079,236. Although the Straits Settlements had an import surplus on trade account (including coin and bullion movements) the Federated Malay States showed export surpluses of some $160,156,876 in 1919 and $118,173,575 in 1920. This, as much as speculation, could account for a temporary and sudden increase in the note circulation. There had been, in fact, a general export surplus during the war and the currency had been steadily increasing, but after the rise in 1918–1920, the gross circulation fell steadily until 1923, reached the greatest peak in 1926, and declined into the depression of 1931. Circulation reached its 1926 height again only in 1940. 1926 was the year of the first net payment from the currency funds into the general revenue of the Colony; it was also the year of record rubber prices.

Legal tender currency of the Straits Settlements—and of the Malay States—consisted of the Straits dollar, an overvalued silver token coin, the half-dollar, subsidiary coins of limited legal tender status, and the currency notes which were legal tender for unlimited amounts except at the office of the Commissioners, where they were convertible on demand into token coin. The 1917 experience of the Government caused the inclusion of the clause allowing the Governor in Council to announce in the *Gazette* a deferment of payment for a fixed period.

No mention of banknotes is made in the list of legal tender money in the 1923 ordinance but they remained legal tender until 1938, and currency notes were considered legal tender by Banks for any purpose. Outstanding banknotes remained, of course, liabilities of the bank; in fact, until 1950 the banks continued to pay banknote duty on all such notes, despite the fact that they must be either in collections or lost or destroyed. A bank can only rid itself of the liability for these notes by transferring an equivalent sum to the Government, and there does not seem to be any particular inducement to do this. There are still small quantities of banknotes outstanding.

The accounts of the Currency reserve were finally simplified and consolidated on the instructions of the Secretary of State issued in 1912. All the currency reserves were held by a Currency Guarantee Fund divided into two main portions: the

[1]The consolidating ordinance, No. 15 of 1923, is best studied as Chapter 219, Vol. V. *Laws of the Straits Settlements.*

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liquid portion, a minimum of two-fifths of the gross note circulation; and an investment portion. The liquid portion was again divided. The Commissioners were obligated to keep current silver coin in the Colony to an amount equivalent to at least one-tenth of the total gross note circulation. An additional provision was made to allow part of this to be kept in current gold coin. The balance of the liquid portion might if the Commissioners so desired be kept in London in any of the following forms: gold current coin, deposits with the Bank of England, treasury bills, on call or other short-term readily realizable securities approved by the Secretary of State. When the amount of silver coins forming part of the Fund is less than one-tenth of the notes in circulation, the liquid portion may be used to buy silver to be minted into current silver coin, the minting profits going into the liquid portion of the Currency Guarantee Fund.

The rules pertaining to the paying in or out of funds from or into the general revenue of the Colony were also simplified. If at the annual audit the market value of securities plus the liquid portion was not over the total nominal value of the notes in circulation, the deficiency might be made up out of the general revenue. Under this system all income of the Commissioners was first paid into the liquid portion of the Fund, rather than partly into a Depreciation Fund and partly into general revenue. Thus it was possible to assess the position of the Fund as a whole before making out payments except to meet current expenses and legally incurred liabilities.

If the sterling value of the assets fully covered the nominal value of the notes plus the difference between the bullion and the face value of the coins, then the government might order any balance paid into the general revenue. Under this system it was possible for the liabilities of the Fund to exceed the assets by the difference between the bullion and face value of the coins in circulation. If the liabilities were to exceed the assets by any more, the general revenue would be rendered liable. To the amount that the assets exceeded the liabilities of the Fund, the government could draw on the Fund for credit to the general revenue. The note issue always had effective 100% backing under this plan.

The value of the Straits dollar was given in terms of shillings and pence, rather than sovereigns, and the fixed points at which the Commissioners were prepared to do business were made statutory. With Britain still off gold as a result of the Great War, the Colony was certainly on a sterling-exchange standard. Over the protests of the exchange banks, who predicted an end to their functions,[1] the margin within which the dollar might fluctuate in relation to sterling was narrowed to 2/3⅞ and 2/4.3/16. The Straits dollar was certainly tied to sterling, and it is even questionable whether it is helpful to consider such an artificially narrow margin as an exchange rate in the ordinary sense. It may be nothing more than a commission or service charge.

The relation of the dollar to sterling was graphically but simply illustrated when Britain went off gold in 1931. The Annual Report for the year explains that 'the effect on the dollar was merely to reduce its exchange value in terms of foreign

[1]The Exchange Banks have always resisted any government control of the exchanges. They opposed, therefore, the introduction of government currency notes, the 1906 establishment of an exchange par, and the progressive steps in narrowing the exchange fluctuations which are still continuing. The opposition to these measures was usually only temporary, and Government has been able to proceed with the co-operation, if not always with the full approval, of the Exchange Banks. C. W. Darbishire in the chapter on 'Commerce and Currency', Makepeace, *Op. Cit.*, says on page 48, "Bankers had all along been antagonistic to fixity; probably they quite naturally regarded the scheme as an attempt at control of a commodity, in which they were primarily interested".

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currencies on a gold basis in the same degree as sterling itself". And yet it would not be true to say that the Straits dollar had no exchange rate independent of sterling. The rate for sterling can still vary in the Singapore sterling market between the limits set by the intervention of the Commissioners, and the Straits dollar is a currency with its own demand in the financing of the entrepot trade for South-east Asia.

Malayan Currency, 1938-1951

The difficulties Chamberlain saw in the concept of an all-Malayan currency were real, but they were difficulties which had to be overcome. Until 1926 the Straits Government received no net profits from their currency, a currency common to both the Straits and the Malay states, but in 1926 a payment of $20,000,000 was made to the general revenue of the Colony. Further payments amounting to a total of $29,000,000, were made in 1929 and 1930. The Malay states argued that they had a right to a share of these profits, and accepted the principle that participation in the profits meant accepting a share of the responsibility and cost of the note issue. In 1938 legislation was passed which made the Board of the Commissioners of the Currency responsible to the Straits Government and the Malay states, but an examination of these developments requires a return to 1934 and the Blackett report.

The 'Report of the Commissioner appointed by the Secretary of State for the Colonies to Enquire into the Question of Malayan Currency' forms the basis of the 1938 legislation.[1] Beginning with an exposition of the current situation, the Report is highly critical of the Straits Dollar as a standard, though token, coin; and the Report advises that the dollar be made limited legal tender, recognising that the note issue of the Commissioners was in fact as well as in practice irredeemable. An overvalued silver coin was deemed an anachronism and, as the Report noted, "There are recent precedents for an inconvertible note issue".

The Malay states undoubtedly had the sovereign right to issue their own currency, but this would have caused considerable inconvenience since trade was through the Settlements. Sarawak could institute its own currency, and did in 1930, without serious inconvenience to trade, since its dollar was on a par with the Straits dollar and funds had in any case to be remitted through the banks. The Singapore banks, however, supplied at least lower Malaya with currency, and large quantities of money passed between Singapore and Johore without using the agency of the banks.

The first suggestion was a simple one: that the fund be administered by the Straits as before but that the profits of the currency fund be distributed according to some agreed formula. Blackett rejected this idea on the principle that the Malay states ought to share the responsibility for the note issue if they were to participate in the profits. The formula would be too difficult to construct if allowance were to be made for the risk which one Government alone undertook with respect to the note issue.

If all the Malay states were to participate, it was necessary that identical legislation be passed in each state, but this was hardly considered an unsurmountable difficulty. There might, however, be an adverse effect on the people's confidence in the currency. The author of the report, Sir Basil Blackett, assumed correctly that the changeover from a purely Straits to a Malayan currency could be made

[1]Straits Settlement Council Paper No. 78, 1934.

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"without disturbing public confidence in the currency, and indeed without the general public being conscious of the change".

Blackett recommended a 115% cover for the currency, but this was felt to be excessive and the Financial Secretary of the Straits Settlements stated that 110% was sufficient.[1] The composition of the Board of the Commissioners of the Currency also had to be changed, and Sir Basil suggested a board of five to be nominated by the Governor, with two of them unofficials. The head office of the Board would remain in Singapore, with the Crown Agents performing the London business of the Board.

The most urgent practical problem was the distribution of profits, and it was immediately seen that such distribution could not depend upon the relative credit standing of the governments concerned whatever might be the theoretical arguments for such a procedure. Instead the profits should be shared, the Report suggested, according to the value of the currency notes held in the various political areas. The percentages calculated for profit distribution would also serve to fix the liability of each government in the event that any payment needed to be made into the currency funds. It was impossible to tell, however, what percentage of the outstanding notes were held in each political area. The banks returned figures of their cash holdings, as did the government treasuries, so it was possible to fix the location of that portion of the gross circulation so held. Any number of *a priori* arguments could be advanced to show why it was more likely that the people of one state were hoarding money, or using more money. The formula finally accepted by the governments concerned made no allowance for the varying velocities of circulation of money which might be expected in various areas with economies of differing complexities. The formula assumed a constant velocity and attempted to fix merely the quantity, or rather the percentages of the total active circulation, thus:

Average wage rate X number in industry = $x currency consumption per month.

This method gave a profit distribution after rounding, as follows:

Straits Settlements . .	37%
Perak 16·75	
Selangor 12·75	
Negri Sembilan 4·5	
Pahang 3·0	
Federated Malay States .	37%
Johore 9·25	
Kedah 7·0	
Kelantan 5·25	
Tregganu 3·0	
Perlis ·75	
Brunei ·75	
Unfederated M.S. . .	26%

These percentages were supposed to be re-calculated every five years, but the war intervened, and it was then realized that as British Borneo would have to be taken into the currency scheme, the whole question of profits would have to be re-examined. The Birse report provided a temporary post-war readjustment.[2] So

[1] Comments were appended to the Report as published.

[2] The Birse Report is examined below, see pages 46 f.

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that the profit-sharing should start on a sound basis, a recommendation was made and accepted that the assets of the currency fund and its liabilities should be calculated and assets over 115% (110% accepted) should be paid into the general revenue of the Colony. Assets over 110% accumulated after this payment should be kept in the currency funds until an agreement had been reached among the various Governments.

Ordinance No. 23 of 1938 gave effect to the recommendations of the Blackett report, and various currency enactments in the Malay states dated in 1939 brought into being an all-Malayan currency. The notes of the new Board gave visual evidence of this by the inscription: "Board of Commissioners of Currency/Malaya/ This note is legal tender for xxx dollars in the Straits Settlements and Malay States", on the new notes, which were first issued in 1940.

The text of the ordinance and the enactments gave statutory status to the currency agreement, and it is this agreement which lays down the principal regulations for the issue of currency and for other matters pertaining to the duties of the Board of Commissioners.

Silver dollars were made limited legal tender to the amount of $10/00; subsidiary coins, to the amount of $2/00. The Commissioners were ordered to issue currency notes against sterling lodged with the Crown Agents at a fixed rate of 2/4, and to pay out sterling against currency notes brought to the office of the Commissioners of the Currency wherever such offices were established. The Commissioners were, however, ordered to charge a commission of three-sixteenths of a penny on every dollar issued and three-quarters of a penny for every dollar received. Thus the historical origin of the charge was lost, but the new provision made even clearer the real relation of the Malayan currency to sterling. The Commissioners were also instructed to fix a minimum value for any transaction they would undertake.

The agreement established the Board of Commissioners of the Currency Malaya of five members, with the Financial Secretary of the Straits Settlements retained as the chairman. The headquarters of the Board was, as recommended, Singapore.

The various components of the currency funds were revised to make possible the distribution of profits and to simplify the accounting necessary to discover the true profits of the Fund without endangering the soundness of the currency. An income account was initiated into which all moneys were paid and out of which all expenses were met which were relevant to current transactions. From the income account was to be paid each year a sum of 1% of the assets of the Currency Fund, the remainder was to be paid into the newly-established All-Malaya (Currency Surplus) Fund, for eventual distribution to the governments participating according to the scale drawn up by Sir Basil Blackett.

The Currency Fund itself was to contain both a liquid portion and investment portion. The percentage of the former could be determined and changed from time to time by the Commissioners, having regard "to their ability to meet reasonable demands for sterling in exchange for currency". The value of the Fund as published annually and determined for the 31st of December of each year was to be the current realizable value of the whole assets of the fund, investments being valued at the time of their valuation, silver being valued at the current market rate.

If at any time the Currency Fund was inadequate to meet the demands upon the Commissioners for conversion, then the general revenue of the participating governments would be liable in the proportion decided by the Blackett report, any government defaulting losing its right to participate in any distribution of profits

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until its share should have been paid. If at any time the Currency Fund was less than the face value of the currency notes and current coin, and if the Governor, the High Commissioner, and the Secretary of State considered it necessary, then the governments concerned were to make up the difference from the general revenue, even though the Commissioners had not been placed in a position whereby they could not complete the conversion of dollar for sterling.

The cost of minting or reminting, losses or gains on the sale of investments, appreciation or depreciation of investments or bullion are noted in the 'Excess of Assets over Liabilities Account' of the Currency Fund. When this excess of assets over liabilities reaches 10% of the Fund's liabilities, then any further excess is transferred to the income account although an amount equivalent to 1% of the liabilities will be transferred back again unless this has been declared unnecessary. From the income account it is, of course, transferred to the Surplus Fund.

Government currency notes in circulation on the eve of the Japanese occupation of Malaya totalled $221,974,005/30 (for 15th February, 1942). The total note circulation shows a small increase during the war to a total of $235,603,368/70 on 3rd September, 1945. The sudden post-war expansion of the currency brought the total nominal circulation to $421,924,085/48 on 1st April, 1946, the date of the resumption of civil government and the re-establishment of the Board of Commissioners of the Currency under the provisions of the Currency (Transitional Amendment) Ordinance, 1946 (No. 4 of Singapore, No. 5 of the Malayan Union).

The note increase during the war is accounted for by the transactions of the Crown Agents acting on behalf of the Commissioners. These transactions consisted of the redemption of Malayan Currency presented for encashment by evacuees from Malaya and of the issue of Malayan currency to the War Office for use by the Services in their operations against the Japanese. The Crown Agents issued the dollars to the War Office at a rate of 2/4 to the dollar. Sterling received was paid into the Malayan Currency Fund, which had been held by the Crown Agents.

During the occupation the Japanese issued the famous 'banana currency' which was simply unbacked military occupation currency, having none of the refinements of the Japanese-sponsored currencies in North and Central Occupied China, for example, the Federal reserve banknotes or the central reserve banknotes but rather comparing with the military yen of these areas, except that the 'banana currency' was denominated in dollars. Malayan currency was hoarded, and, in this way, many hundreds of dollars became lost or deteriorated beyond recognition. Coins were lost or melted down, and this to such an extent that the Commissioners later felt justified in reducing the bullion cover for both the coins and the notes.

Until the civil government assumed power in April, 1946, the British Military Authority continued to do currency business at the rate of 2/4 to the dollar, but paid from War Office funds the cost of operation of the Currency Fund. When the Board of the Commissioners was reconstituted in April, 1946, it was first composed of two members only, the Financial Secretary of the Malayan Union and the Financial Secretary of Singapore, the former being chairman. Offices of the Board were established in Singapore (the main office), Penang and Kuala Lumpur, capital of the Union.

A few of the post-war currency problems arose from the realignment of British possessions in South-east Asia, and these changes it would be well to detail. The old Colony of the Straits Settlements was split. The Settlements of Penang and Malacca were assigned to the newly-constituted Malayan Union, which consisted of all the Malay States except Brunei in Borneo. The Settlement of Labuan was

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assigned to the new Crown Colony of British North Borneo, sovereignty over which had been ceded to the Crown by the British North Borneo Company. Singapore, together with the Cocos and Christmas Islands, was constituted as a separate colony. The Raj of Sarawak was ceded to the Crown. In 1955 the Cocos Islands were transferred to Australia.

These changes necessitated a re-examination of the profit distribution, and, in any case, more than the five years had elapsed since the first adoption of the percentages. The 'Report on the Apportionment of Straits Settlements Assets and Liabilities' was submitted by A. L. Birse and his recommendations were accepted. Birse re-estimated 'currency consumption' per head in each of the areas and revised the Blackett scale: Straits Settlements 38·3%, Federated Malay States 37·4%, and the unfederated Malay states 24·3%. From the Straits Settlements he deducted 16·15% of the total profits; of this 16·05% was the share of Penang and Malacca which was assigned to the Malayan Union and ·1% was the estimated share of Labuan which was awarded to the government of British North Borneo. The share of Labuan presented some difficulties of calculation because, in the first place, it was not certain that Blackett had included this small Settlement in his calculations. If the economy of Labuan compared with Penang, Birse calculated its share should be ·22% of the total; if compared with Malaya, ·17% of the total. Then as 60% of the currency of Labuan was not Malayan, it was decided to reduce the share to ·1%. Finally, from the share of the Malayan Union as calculated above was subtracted the share of the State of Brunei, ·75% of the total.

The new scale which was accepted was as follows: Singapore 22·25%, the Malayan Union 76·9%, Labuan ·1%, and Brunei ·75%. Under these arrangements $55,870,513.84 of accumulated surplus was paid out in December, 1947. This amount was composed as follows:[1]

(1) accumulated surplus from income account less the 1% transferred to the Currency Fund $29,433,177/38
(2) excess value of the Currency Fund over 110% of the face value of the currency notes and current coin in circulation . . $24,734,916/14
(3) proceeds of sale of investments in the All-Malaya (Currency Surplus) Fund $1,702,420/32

Before the war the Commissioners had intended to introduce the new currency notes, since those in circulation still bore an inscription crediting the notes as a liability of the Straits Settlements only. These notes were introduced immediately after the war, and the "pre-invasion currency notes" were demonetized in 1948, although no time limit was placed on their redemption at offices of the Board of the Commissioners.

Immediately after the war, legal tender in Malaya was declared to be both pre- and post-invasion notes with the exception of pre-invasion notes in denominations of one thousand and ten thousand dollars and of less than one dollar. The right of possession of the larger denomination notes had to be established. The $134,815.00 worth of banknotes still nominally in circulation were not, of course, legal tender.

[1]During the period from 1942 to 1946 the surplus of the currency fund was not distributed. Part of the funds in the All-Malaya (Currency Surplus) Fund was used to purchase securities which were kept separately from the Investment portion of the Currency Guarantee Fund. All other surplus sums were kept in the liquid portion of the Currency Guarantee Fund. In 1947 the accumulated surpluses since 1942 were taken from the liquid portion of the Currency Guarantee Fund and again placed in the All-Malaya (Currency Surplus) Fund. At the same time the securities were sold, and distribution of the Fund was made as described.

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It was intended, after the war, that British Borneo should eventually be included in the Malayan currency scheme, especially since North Borneo and Sarawak had both become Crown colonies. The British Military Authorities had issued Malayan currency notes in the British Bornean territories they administered, and steps were later taken in Sarawak to withdraw the Sarawak currency notes from circulation. Although the Commissioners did not have offices in these territories until after the signing of the new currency agreement which included that area now known as the Malayan Currency Area, facilities were provided first by the B.M.A. and then by the colonial administrations concerned for the exchange and issue of Malayan currency notes, so that the change to the Malayan dollar had almost been completed by the time the relevant legislation was approved in 1952.

In further anticipation of the participation of the Borneo territories in the Malayan currency system, it was agreed by the governments concerned that Sarawak and British North Borneo should be entitled to a share of the currency surpluses acquired by the All-Malaya (Currency Surplus) Fund on and after the 1st of January, 1947. As the exact shares of these two colonies awaited the final agreement and so that the other territories should not have to wait for their share of the surplus, it was decided to distribute only 88·10% of the fund to Singapore, the Malayan Union, Brunei, and British North Borneo (on account of Labuan only). Then 5·15% of the total would be held against any sum decided for future distribution to Sarawak and British North Borneo, while 6·75% of the total was held until the share assigned to Singapore could be reconsidered. The following sums had been paid out to the participants under the pre-war agreement and according to the Birse percentages:

1948: $4,603,022/36
1949: $4,666,592/27
1950: $5,439,148/08
1951: $5,288,449/64

In addition to these sums $8,477,455.36 was paid out to the Federation of Malaya, the Colony of Singapore, Labuan, and Brunei, when the Commissioners wrote off this amount of pre-invasion notes, thereby reducing the liability on the circulation of such notes on 31st December, 1951, to $1,931,200. The Commissioners' annual report for 1949 comments thus on its redemption operations:

> "The nominal value of such currency notes, some of which, it should be realized, had been issued into circulation at the beginning of the century, amounted to $238,804,963.95 as at the 15th February, 1942. Of this total $227,656,077.49, the equivalent of 95 per cent. of the former amount has been handed in. The confidence of the inhabitants of Malaya and adjacent countries in the Malayan currency during the period of the Japanese occupation is thus clearly reflected."

For the sake of completeness some mention should be made of the Cocos Islands and the peculiar currency system that has been introduced there by the Clunies Ross family. The sovereignty of the Islands rests with the Crown, but the Clunies Ross family has hereditary and exclusive property rights in the Islands. In 1878 the Cocos were assigned for the purpose of political control and administration to the Colony of Ceylon and, in 1903, to the Straits Settlements, specifically, to the Settlement of Singapore to which it was attached until 1955.

George Clunies Ross, or Ross the Second, introduced notes of sheepskin to serve as currency. They were of six values: Rs¼, Rs½, Rs1, Rs3, and Rs4, which values were stamped on the face of the note together with the date of issue and the

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issue number. They were intended to be convertible into Ceylon rupees only when the bearer left the islands, and they bore accordingly the inscription "Exchange for the sum of Rupees copper", and this was followed by the Ross signature. Most transactions on the islands were, however, in the form of book-keeping notations made at the Ross store—the only store—and the 1886 report of E. W. Birch comments unfavourably on the high price of provisions charged at these stores.[1]

Later ivorine token money and 'bamboos' were introduced, and large numbers of these were taken as souvenirs by soldiers stationed on the island during the Second World War. The token coins were backed by the Clunies Ross assets in Singapore, and it was from these assets that the token coins were redeemed when a native emigrated from the Cocos. The Cocos rupee was worth 1/8*d.* sterling, or 7 Cocos rupees to $5/00 Malayan currency.

Despite the fact that Malayan dollars were the sole legal tender in the Cocos, their payment to natives was forbidden, and Cable and Wireless Company, for example, paid their employees on the islands in Cocos Rupees, paying in an equivalent amount of Malayan dollars to the Ross account in Singapore. On West Island where the Australians maintained an airstrip, the Australian pound was used in most transactions. There were, therefore, three currencies in use: the Malayan dollar, the Cocos rupee, and the Australian pound. A proposal in 1947 to have the rupees exchanged for the Malayan dollar was postponed then on the seemingly irrelevant grounds that the new Malaya-British Borneo currency agreement was about to be signed. A more recent delay has been the result of the protracted negotiations involved in the transfer of political jurisdiction over the Cocos from the Colony of Singapore to the Commonwealth of Australia.

Conclusions and Comparisons

The new currency agreement came into force in January, 1952 and was the logical conclusion to the geographical extension of Malayan currency. British South-east Asia now uses the same dollar and participates in the risk and profit of currency issue. The currency notes of the British North Borneo Company and of Sarawak have largely been redeemed, and although there are such notes outstanding, legal tender in these areas consists solely of the Malayan dollar. The new currency notes, first issued in 1954, bear the legend:

Board of the Commissioners of the Currency Malaya and British Borneo
This note is legal tender for xxx dollars
in the Federation of Malaya, Singapore, Sarawak,
North Borneo and Brunei

The ordinance which gave statutory status to the currency agreement in Singapore contains little that would not be found in the 1938 agreement—except, of course, in its geographical coverage.[2] The one-dollar currency note is made unlimited legal tender[3] and the Straits dollar coin was left as legal tender to the amount of ten dollars. The ordinance must still make special mention of banknotes, if only to say that they are not rendered illegal by the provisions forbidding persons to draw, accept, make or issue, any bill of exchange, promissory note or engagement for the payment of money payable to bearer on demand.

[1] John Scott Hughes, *Kings of the Cocos* (London: Methuen and Co., Ltd., 1950), p. 76. Other material on the Cocos is taken from unpublished reports of the Singapore government.

[2] No. 42 of 1951.

[3] A measure anticipated by the provisions of Ordinance No. 7 of 1950.

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The Board of the Commissioners of the Currency was expanded under the terms of the agreement to include representatives from British Borneo, and the All-Malaya (Currency Surplus) Fund was renamed the Malaya and British Borneo (Currency Surplus) Fund. The amounts in the currency surplus fund were to be distributed according to a new scale:

Federation of Malaya	65%	Singapore	29%
Sarawak	3½%	North Borneo	2%
Brunei	·75%		

and provision was made for the readjustment of this scale during any financial year. The new scale was also made applicable to any sums remaining in the All-Malaya (Currency Surplus) Fund which had not been distributed at the time the new agreement came into effect. The profits from the demonetization of pre-invasion currency notes, notes bearing dates prior to 1st July, 1941, were to be distributed according to the Birse scale. During 1953 the Commissioners reduced the cover on unredeemed pre-invasion notes by $1,000,000, and this sum was, therefore, distributed to the governments participating in the 1938 agreement according to the Birse scale.

The new profit distribution agreement was never put into effect as the Borneo governments claimed a higher percentage, basing their claim on the figures of currency issued by the offices of the Commissioners located in the three territories.[1] Pending the settlement of this claim, only 94% of the 1951 profits were paid out and an adjustment was made in 1953 which divided the profits with British Borneo's share an aggregate 11·56% (Sarawak 4·89%, North Borneo 4·42% and Brunei 2·25%), while the shares of Singapore and Malaya were reduced proportionately.

The Currency (Conversion) Regulations which the participating governments promulgated on the advice of the Commissioners of the Currency, set the commission chargeable on the receipt or issue of currency notes at one-eighth of a penny in respect of every dollar issued and one-eighth of a penny in respect of each dollar received. This was a further step away from the historical origin of the charge. Whereas the 1938 agreement had been the first to call the payments made to the Commissioners over and above what was necessary to transact business at par a 'commission', the effective rates at which the Commissioners did business remained as before, including the uneven commission rate which had its origin in the difference in shipping of gold from Australia and to London. Now the commission was narrowed and evened. This was a significant change, for as such a move had always been opposed by the Exchange Banks on the grounds that their source of income would be removed if the sterling-dollar exchange rate could not fluctuate within reasonable limits. By narrowing these limits to two-eighths of a point, the Exchange Banks must do business within the limits 2/3.27/32 and 2/4.5/32, allowing an additional 1/32 over the Commissioners' rate.[2] That this does not eliminate the banks' exchange business is due to several factors: (*a*) the companion regulation which laid down the minimum sum with which the public could do business with the Commissioners at £10,000 or $100,000, (*b*) the fact that the Commissioners only buy and sell TT, (*c*) that the difference between the merchants' buying and selling rates is less than the Commissioners', and, finally, (*d*) most

[1]This is technically correct. The distribution of profits since 1947 was made to the Borneo territories as shown above except that the share of British North Borneo is listed as 1·9% instead of 2%.

[2]For a fuller explanation, see below, p. 54.

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exchange transactions have a trade aspect which only banks are qualified to examine.

Effective 31st December, 1952, the silver coins which had been issued by the Governments of the Straits Settlements or the Board of Currency Commissioners, Malaya, were declared to be no longer legal tender.[1] In 1953, therefore, legal tender coins consisted of nickel, cupro-nickel, and bronze coins of denominations less than one dollar. The famous Straits dollar coin was no longer legal tender in the Malayan Currency Area. This was, after all, but the logical end for a coin which need never have been introduced but for the desire of the currency reformers to make as little change as possible in the visible nature of the Straits currency. Being an over-valued token coin, the Straits dollar had given trouble with every rise in the price of silver, and such a rise after the Second World War again threatened the dollar with the melting pot. The only excuse after the 1938 agreement for keeping on such a token coin would have been the relative convenience of a coin over a note for small transactions. The elimination of the silver dollar and the narrowing of the limits within which the exchange rate can fluctuate are at this writing the final moves in a long series of regulations, enactments, and proclamations which brought the currency of British South-east Asia from a silver to a gold standard to a gold exchange standard to a sterling exchange standard . . . and some would claim that the end of the chain was even closer to sterling than a sterling-exchange standard, that the Malayan dollar was now nothing but sterling with a different colour on the currency notes.[2]

The complexity of the multitudinous regulations, the numbers of the various funds, and their changing consistencies should not obscure certain fundamental principles which have guided currency legislators throughout the period since the introduction of the Government note issue. The days of the East India Company are not fruitful of generalization except to show how difficult it was to impose upon an area a currency which was totally unsuited for it.

Behind all the legislation is the basic idea that the purpose of a currency is to serve as a medium of exchange and store of value and nothing more. Nothing must be done, therefore, to disturb public confidence in it, even if extremely conservative measures should result in the loss of income. When the further idea that currency should serve the 'requirements of trade' is coupled with the desire for stability, the solution will inevitably be that a paper currency must have at least 100% backing and a high proportion of liquid assets in the reserves.

'Requirements of trade' is a positive way of expressing the concept that the Straits Settlements could not carry out an independent monetary policy. Any attempt at such an independent policy might have resulted in an inability to maintain the exchange rate, with all the resulting consequences to trade and to the burden of foreign indebtedness. Further, the Straits Settlements had no money market—Singapore did not even have, and still does not have, a clearing house agreement among the Exchange Banks—and the Colony and the trade area it served depended upon the London money market. The expansion of trade and the consequent need for additional funds to finance it made mandatory a certain stability of exchange since those additional funds had to be brought from London. It was this need for stability of exchange rates which decided the Straits against the silver dollar, after they had spent half a century pleading for its legalization. The ability to maintain the rate lay behind much of the currency legislation.

[1]The authority for this proclamation is to be found in the currency ordinance of 1951.

[2]*Cf.*, for example, Ida Greaves, *Colonial Monetary Conditions* (London: H.M.S.O., 1953), chapter 7.

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The fact that the government currency notes were redeemable by the over-valued Straits dollar always complicated the otherwise simple Straits-sterling relationship, but the convertibility of the notes was a further reason for a conservative reserve policy. So basically there was but one currency fund, which contained a minimum of 100% reserves against the note issue, against the difference between the face and bullion value of the coins, together with allowances for certain specified potentialities.

The evolution of the funds can be summarized as follows. At first the Straits were on a silver standard. The notes were convertible into fully-valued silver dollars, and the fund to back these notes had to allow for the possibility that all the notes might be brought in for redemption. Against this possibility had to be countered the popularity of the note issue. The fund then consisted chiefly of the silver dollars which had been turned in for the notes—it was a simple transfer. Conservatively, the Commissioners invested a small part of these funds, and set aside part of the income from these investments to allow for their possible depreciation. A more than 100% backing only became necessary when part of the funds were invested, as an insurance that the 100% would prevail.

The next step had to be taken when the face value of the coin no longer corresponded to its bullion value, and since this difference was the result of the changing value of the bullion with respect to gold, the profits originally made in the minting of the coin were not considered profits in fact, but as reserve against redemption of the coins in gold, i.e. a gold standard reserve.

The Depreciation Fund was to allow for the depreciation of investments; the Gold Standard Reserve, against the redemption of coins the face value of which was greater than the bullion value. Since both funds aimed at insuring the minimum 100% backing would be maintained regardless of market conditions, they could well be and were combined.

Once it was realized that the paper currency note was and would remain the main circulating medium, the Commissioners were able to invest a larger proportion of the currency funds. The final step in this evolutionary process came as late as 1952, when the Commissioners enlarged the proportion of medium and long-term investments in their portfolio, indicating their understanding that a proportion of the currency would always remain in circulation.

The history of Malayan currency legislation since 1903 can be summed up thus: " . . . whether the issue be by the Government or by the banks, it is of vital importance to a community that the Notes in circulation should be so safeguarded as to form in no unsubstantial sense, 'the shadow of the gold' ".

Early colonial currency history is as diversified as the nature and purposes of the various colonies themselves, and in the sixteenth century the various colonies were left to regulate their own coinage. The Act of 1707, which fixed the value of West Indian currency in terms of the ubiquitous Spanish dollar, was the first sign of a change of policy, a policy which remains valid for all non-self governing sections of the Commonwealth, that the Home Government reserves the final right of veto on monetary matters. This move was justified by the confusion into which colonial money had fallen, but the attempt in the early nineteenth century to introduce British coinage into the Colonies was unsuccessful. Supervision by the Home Government was one thing; a unified currency system throughout the Empire, another.

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In the early nineteenth century the world was divided into currency areas, a situation requiring that colonies have currencies appropriate to their areas. With the rising dominance of the London money market, with the fall in the price of silver, these currency areas gave way to the importance of exchange stability with London, or at least with some Western money market in touch with London. As long as the East maintained its faith in silver, the currency of the trading outposts had to coincide—for somewhere the silver–gold exchange had to be made—and because of the close proximity of the trading colonies to the silver-using areas, better that the exchange should come between the colony and London than between the colony and its trading area.

Eventually only China remained on silver and with it Hong Kong. The Straits could change as soon as the main trading area—Malaya with its tin—could be persuaded to go along. With British residents in many of native states, this was not too difficult. North Borneo's small issue was kept at par with the Straits dollar which remained legal tender there. The Straits Settlements had sufficient political control and economic importance by 1900 to be able to carry its trading area along with it. Hong Kong had not.

The political influence which emanated from Singapore into South-east Asia extended as far as the Kingdom of Siam, where its King, Chulalongkorn, initiated the system of foreign advisors, selecting Englishmen to advise on matters of finance. From 1902 to 1908 Siam made the slow transition to the gold-exchange standard and kept with Britain to accept a sterling-exchange standard when that country went off gold. Burma, whatever its geographical orientation and inclusion in the term 'South-east Asia' today, was then part of India and administered from there. Not until 1947 was a separate currency board set up in Burma in the style of the Malayan Board of Commissioners.

In the Netherlands East Indies the Dutch coins had full circulation, but joined the 'guilder' area on an exchange standard.[1] French Indo-China and the Philippines tied their currencies to those of their mother countries, and in 1935 China and Hong Kong went off silver. Japan had been on a gold standard since 1897. The countries of the Far East had currencies then which were related to each other through either London or New York, or, as in the case with the yen-bloc currencies of Chosen, Manchukuo, and Taiwan, through Tokyo. This meant that the exchange rates in the Far East depended almost entirely upon exchange rates determined in Europe and America, that is, they were dependent upon factors not entirely relevant to local conditions. As long as stability with the money markets of Europe and America remains more important than more local considerations, these arrangements will be satisfactory.

The development of currency in Malaya paralleled then the development of currency elsewhere in Asia, an important consideration when Singapore's role as an entrepot is remembered. At the same time British Colonial monetary policy was following more or less closely the lead from the Straits. The system of Currency Commissioners which the Straits originally borrowed from Mauritius and Ceylon has been extended to the majority of colonial territories which have their own currency issue. There are regional boards for East Africa, West Africa, the British West Indies colony boards in the other colonies, e.g. Jamaica.

On the whole the system, though conservative, has answered the needs of politically dependent, undeveloped areas. There is now a question as to whether

[1] *Cf.* Spalding, *Op. Cit.*, pp. 263–389.

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the monetary needs of an independent area can be well served by such a system, and it was the belief in Ceylon, for example, that it could not. Even Burma after operating the currency board system for two years succumbed to the dream of monetary management in its Currency and Coinage Act, 1949. These are questions which can be better answered in another section of this survey of Malayan currency.

Money in Sarawak

Under the provisions of the Currency Proclamation dated 25th November, 1952, the Malayan dollar became the sole legal tender in the Colony of Sarawak effective 1st January, 1953. On that date there were $28,560,956/42 Malayan currency in nominal circulation. $288,274 worth of Sarawak currency notes remained outstanding and, as a matter of grace, would be redeemed when presented. The story of money in Sarawak after 1952 is, then, the story of Malayan currency and can be discussed together with it. The history of Sarawak money should, however, be studied separately, and it is all the more interesting because it is complete in itself, the Sarawak currency fund having been practically wound up with the conclusion of the post-war monetary changes in British South-east Asia.

Sarawak monetary history may be divided roughly into three periods. The first, to 1930, covers the period during which the legal tender in the Raj was closely parallel to that in the Straits Settlements. From 1930 to the Japanese invasion, Sarawak had her own dollar unit of account and her own currency notes, on a sterling-exchange standard at the rate of 2/4*d.* to $1 Sarawak currency. After the Japanese surrender, the coming of the British Military Authority made legal tender not only the Sarawak notes but also the coin of British North Borneo and the notes and coin of the Straits Settlements and Malaya. This third period is, then, one of transition, in which the various currencies were all declared legal tender while the Sarawak and British North Borneo moneys were withdrawn in favour of the Malayan dollar.

This is not to imply that the Government of Sarawak did not issue government currency notes before 1930. Although no mention is made of the first issue of such notes in the *Government Gazette*, account books indicate that the first 600 five-dollar notes were issued in September, 1880. They were convertible into Mexican dollars which were, in Sarawak as in the Straits Settlements, the standard coin. In July, 1894 there is a record of the first issue of one-dollar notes, to the total amount of $1,000.

These first note issues were backed by a 100% liquid fund which was not, however, kept separately from the Colony's general revenue account until 1927. While such notes were legally redeemable only in the Colony, as a matter of convenience the Sarawak Government's agent in London used to exchange the notes at the par rate of 2/4*d.* sterling.

Until the introduction of the Straits dollar in the Settlements, the standard coin in Sarawak was the Mexican dollar, and, as in the Straits, other coins were given legal tender status from time to time. Thus notice is given in the *Gazette* of March, 1899 that the Japanese silver yen would be, effective 15th April, no longer considered legal tender although it would be received in payment of revenue at a 5% discount until 30th June.

The first indication that Sarawak was suffering from the falling price of silver comes in a letter from the second Rajah to his Treasurer instructing him that 'pensions, etc.' were to be paid at the current exchange rates and not at 4/6*d.* to the dollar. (This figure had been set when the dollar was fluctuating between 4/2*d.*

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and 4/10*d.*). An exception was made in the case of those pensions which had been promised in sterling or where agreements had been made specifically mentioning the exchange rate. It is impossible to discover the percentage of pension agreements containing these provisions, but there are many references to this problem in the letter books of the Rajah. In 1883, for example, the Rajah instructs that payment to any officer on extra leave shall be made at the current rate of exchange. An instruction dated September, 1885 that all pensions should be paid in dollars was cancelled by the Rajah just two months later. In fact, only two days after writing the original letter to his Treasurer, the Rajah stated that he would settle each case individually and that he preferred the term 'bonus' to 'exchange loss'.

In 1903 the *Sarawak Gazette* noted that the *Report of the Straits Settlements Currency Commission* had been published and commented, "it is certain that Sarawak must follow the Straits currency sooner or later, we should prefer sooner . . ."[1] Sarawak had tried to participate in the Straits currency scheme but had not been allowed to do so by "the Home Authorities".[2] The *Gazette* also predicted that the discarding of Mexican and British silver dollars could be expected any time and expressed the doubt that the natives of Sarawak could be convinced of the value of a token coin when they had been used to the 'British Dollar'. In fact, this never presented anything but local difficulties overcome by personal explanation by government officers.

Although the Straits Government banned the import of Mexican and British dollars and the export of Straits dollars in 1903, this was not enforced against Sarawak. From the beginning Sarawak saw that she had to maintain close economic relations with Singapore, and to comply with the Straits Settlements currency regulations. In September, 1904 the Sarawak Government confirmed that Mexican and British dollars were still legal tender in the Raj but warned that these coins must soon be demonetized. On 30th November, 1904, C. V. Brooke, the Rajah Muda, proclaimed that no dollar except the Straits dollars or others at the current rate of exchange in Singapore would be accepted by the Treasury, i.e. he made the Straits dollar the unit of account, and the Straits dollar coin the standard. Representations were immediately made to Singapore that the banning of the export of the Straits dollar to Sarawak would place the latter in an impossible position. The informal agreements were formalised in 1906 when the Rajah Muda issued Order No. 1 as follows:

> Notice is hereby given that no dollars other than Straits Settlements dollars will be received at Government Treasuries throughout the Territory of Sarawak from this date.
>
> By order of H.H. the Rajah Muda,
> F. H. DALLAS,
> *Treasurer.*
>
> Kuching,
> 1st January, 1906.

Order No. XIII reads as follows:

> Sarawak Government has been notified by H.E. the Governor of Singapore that the Straits Settlements dollar is prohibited from export from the Straits Settlements except to the Malay Peninsula and Sarawak and British North Borneo:
>
> Therefore, Sarawak prohibits the export of Straits dollars except to the Straits Settlements or British North Borneo.

[1] *Sarawak Gazette*, XXXIII (June 2nd, 1903), p. 114.
[2] *Ibid.* (October 2nd, 1903), p. 213.

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A notice was published as a consequence of this Order informing members of the public that if they were going to places where the Straits dollar could not be taken, the Treasury would exchange the dollar coins for Straits Settlements currency notes "or otherwise as may be arranged".[1] It was, however, unusual for anyone to travel from Sarawak direct to any place other than the Straits, Labuan or British North Borneo.

One disgruntled citizen, signing himself 'Numismatist' in the *Gazette* urged a gold standard for Sarawak, for, as he pointed out, gold was mined there and was passing at a premium.[2] It would, he thought, be better accepted by the Chinese than the token silver coins of the Straits. Despite the fact that Sarawak has been identified with the 'Golden Chersonese' and with the *Yavadvipa* or 'land of gold and silver' of the Ramayana, the output of gold in the territory has never been great, and the proposal was not adopted.[3] Sarawak was, more truly than the Straits at that time, on an exchange standard.

Before the currency reform the Rajah had to meet the claims of those who were suffering from the depreciation of silver. Perhaps a more unusual request came from a contractor who claimed extra payment on the grounds that silver had appreciated, but the Rajah dealt with him:[4]

> ". . . . no change was ever made between Employer and Employee when the dollar was abnormally low—at the present time it is only of fair value —and it was of the same value when Mr. Etheridge signed the agreement . . . therefore on the score of exchange on dollars no claim can be sanctioned—
>
> Yours faithfully,
> (Signed) C. BROOKE,
> *Rajah.*

The Sarawak Currency Fund was set up in September, 1927, but unlike its Straits counterpart, it did not do business directly with the public but with the Treasury, the Chartered Bank of India, Australia and China, and the Oversea Chinese Bank. To illustrate this situation, two examples are given. Assume that a member of the public is bringing old notes, dated before 1929, in to the Treasury office in Kuching to be exchanged for the new issue of 28th November, 1929. The individual surrenders his old notes to the Treasury, receiving new notes in exchange. The Treasury sends the old notes to the Currency Guarantee Fund, which is then debited in favour of the Treasury.

Assume now that a London importer instructs the Chartered Bank to remit funds, say a lakh of dollars, to his credit in Kuching. The Bank credits the importer's account in Kuching with one lakh—a liability of the Kuching branch—and credits the London account of the Kuching branch the same amount. The transaction would be carried out at 2/4*d.* to the dollar, with the bank charging a commission. Assume that the Kuching agent of the importer attempts to draw this sum out in cash. In principle the Chartered Bank issues the cash, debiting the importer's account and crediting the account of the Currency Guarantee Fund. Should the Fund now wish to transfer its current account assets from Kuching to

[1]Notice No. L and published in the *Gazette*.

[2]*Sarawak Gazette*, XXXVI (April 4th, 1907), p. 80.

[3]Government of Sarawak, *Annual Report* 1953 (Kuching: Government Printing Office, 1954), p. 159.

[4]Letter from H.H. the Rajah to H. D. Ellis, Commissioner of Public Works, and dated June 17th, 1906.

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London in order, for example, to invest in securities, it would transfer the given sum to the Sarawak Government's Treasury account in Kuching, receiving sterling in London at the rate of 2/4*d.* from the Treasury account there. The Treasury carried the cost of the transfer.[1]

The net result of this transaction was to raise the money supply of Sarawak by one lakh. Even if, as is usual, current accounts are considered part of the money supply, the current account of the Currency Guarantee Fund cannot be, since to include it would amount to double counting, providing 100% reserves are required, as they were in Sarawak.

In 1927 the income account of the Fund showed nothing but interest payments arising from accounts held with banks, but by 1930 the Fund had made such investments as: 4½% Conversion Loan, 4% Consols, and the interest payments from all sources in 1930 amounted to $32,417/42 compared with the $1,442/13 in 1928.[2]

The reason for this renewed interest and activity in the Sarawak currency was the decision to make Sarawak government notes together with Straits dollar coins sole legal tender in the Raj. Notice No. 237 in the *Sarawak Government Gazette*, 1st April, 1930, warned that the importation of foreign currency notes was forbidden, that Straits Settlements currency notes could be exchanged for Sarawak notes until 30th June, 1930, on which date Sarawak currency notes and the Straits Settlements silver dollar would be the sole unlimited legal tender. In 1931 an Order stated that the first coinage of Straits dollars were not legal tender but would be accepted until 31st December, 1931, and that current Straits dollars might be imported under the seal of the Treasury or of the banks.

The effect of these measures can be seen from the accounts of the currency fund. In 1927 the total Sarawak Government notes in circulation amounted to $155,860/85. By 31st May, 1931, the first of the monthly currency returns, which under the new orders had to be published in the *Gazette*, shows that the number of Sarawak Government notes in circulation amounted to $1,820,306/–, and there was a $16,512/– excess of assets over liabilities.[3] This change was effected by the exchange of Sarawak notes for the surrendered Straits notes. These latter were shipped to Singapore and presented for sterling in the inter-bank market. Transactions of such a magnitude forced the rate up to the maximum rate and the Commissioners noted, in their Annual Report for 1930, a drop in note circulation (from $105,141,386/75 to $84,115,545/75—not all due to the Sarawak currency change, which the Annual Report does not even mention).

The final change in the pre-invasion Sarawak currency was the notification in 1939 that Straits Settlements dollar coins would no longer be legal tender in Sarawak and might not be imported. This, presumably, is a result of the 1938 Malayan currency agreement under which the dollar coin ceased to be unlimited legal tender in the Straits and Malay states.

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[1]The lack of written information as to the working of Sarawak currency funds before the war makes the assistance of Mr. Ee Lai Watt of the Sarawak Accountant-General's Office even more valuable.

[2]All statistics on currency in circulation and other aspects of the currency fund are taken from the Annual Report of the fund or from the Report of the Accountant-General.

[3]The greatest increase came between October and December, 1929:
October, $93,159/–; November, $288,159/–; December, $1,352,516/–
The peak was between December, 1941 and January, 1946 when the accounts showed $9,312,387/50 worth of Sarawak currency notes in circulation.

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The study of Sarawak currency under the Raj is complicated by the fact that legislation sometimes took the form of a letter of instruction to the administrative officer concerned, sometimes an official order published in the *Sarawak Government Gazette*, or is only discoverable from an informal notice in the unofficial *Gazette*, also published in Kuching.

During the occupation the Japanese introduced their 'banana' currency denominated in dollars and bearing the meaningless inscription, "The Japanese Government promises to pay the Bearer on Demand xxx dollars". Some of these notes had serial numbers, and the Japanese hinted that the British would redeem such notes, thereby making them pass, temporarily, at a premium. The British Military Authority treated them all as worthless, however, and by a 1945 proclamation, British North Borneo coins, Sarawak notes and coins, and Malayan and Straits Settlements notes and coins—except pre-invasion notes of $1,000 and $10,000—were all declared legal tender in Sarawak. The Rajah resumed the administration of the State on the 15th of April, 1946, and the Proclamations (Continuance) Order, 1946, kept in effect the currency regulations of the British Military Authority. By Order-in-Council Sarawak became a Crown Colony on 1st July, 1946.

By 1947 negotiations were under way among the governors of British territories in South-east Asia for the formation of the Malayan Currency Area. On 30th April of that year there were $7,021,382/40 Sarawak notes in circulation and $636,807/05 in coin, and the fund showed assets at almost two million dollars above the liabilities. No Sarawak currency notes had been put into circulation since the war, and already the number of Sarawak notes in circulation had fallen significantly from the $8,198,382/40 at the end of 1946. But now the Sarawak Government began to actively withdraw its notes, so that by 31st December, 1951, the Sarawak Currency Fund appeared as follows:

	$	$
Liabilities		
Notes in circulation	961,444/60	
Coins in circulation	636,598/97	
		1,598,043/57
Excess of Assets over Liabilities Account:		
Balance as of 1st January, 1951	2,506,080/16	
Less—		
Appropriation to Sarawak Welfare and Reconstruction Fund	1,350,000	
Excess of Expenditure over Income	2,290/83	
Depreciation	196,102/94	
Loss on conversion	103,855/27	
		853,831/12
To Sarawak Treasury:		
Transfer of interest	7,928/50	
Transfer of dividends	122,972/12	
		130,900/62
		2,582,775/31
Assets		
Liquid Assets	676,965/08	
Investments	1,905,810/23	
		2,582,775/31

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The actual currency changeover from the Sarawak notes to the Malayan notes was affected as follows. The Sarawak Treasury accepted the notes (this first occurs as a separate item in the 1952 balance sheet), cancelled them at the end of each month and was credited by the Currency Fund in the Treasury's account with the Chartered Bank in London, part of the sum having been obtained by the sale of investments previously held by the Currency Fund. When the Treasury wanted Malayan dollars it drew on its Singapore account with the Chartered Bank and that bank furnished the Malayan dollars. Actually what happened was that the Treasury paid into the Chartered Bank in London and left it to the Chartered Bank to find the Malayan dollars in the Singapore inter-bank market. This procedure was better than dealing directly with the Commissioners of the Currency, as the Sarawak Government had done at first, as it meant a more favourable exchange rate for the Malayan dollars. The result of these transactions are better seen in the 1952 annual accounts of the Currency Fund, the first year in which the liabilities were greater than the assets, i.e. the fund was insolvent.

Liabilities

	$	$	$
Notes in circulation		313,984/60	
Coins in circulation		502,917/05	
			816,901/65
Excess of Liabilities over Assets Account:			
Balance as at 1st January, 1952		—853,831/12	
Appropriation to general revenue		1,000,000	
		146,168/88	
Excess expenditure over income	1,878/65		
Loss on conversion	30,342/46		
		32,221/11	
			178,389/99
			638,511/66
To Sarawak Treasury:			
Outstanding transfer of:			
Interest	10,330/85		
Dividends	30,913/11		
		41,243/96	
Reimbursement of payments on currency withdrawn from circulation		49,393/02	
			90,636/98
			729,148/64

Assets

Cash in Kuching (Chartered Bank)	12,995/61	
Cash at Crown Agents in London	716,153/03	
		729,148/64

Although the Fund was insolvent, this caused little worry since it was estimated that some 50% of the coins in circulation would never be brought in for redemption. Had they been, it would always be possible to meet this liability towards such a small part of the money supply out of the general revenue of the Colony. Two

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further aspects of these accounts require comment. The first is that the interest and dividends from the investments of the Fund were paid into the general revenue of the Colony, without, as it happens, legislative action. In addition to these payments two appropriations are made from the currency fund for other purposes: in 1951 this payment was made to the Sarawak Welfare and Reconstruction Fund; in 1952, simply to the general revenue.

By 31st December, 1953 the total assets of the Fund had been reduced to $589,744/30, and the liabilities exceeded the assets by $183,788/03. It was estimated that only 10% of the $470,153/43 coins in circulation would ever be presented, and if this is correct, there is no need to expect that the general revenue of the Colony will ever be called upon to aid the ailing and fast-disappearing currency fund.

But the Malayan Dollar had already become the sole legal tender, and another aspect of the colourful regime of Rajah Brooke had been concluded.

Chapter 2

THE MALAYAN CURRENCY AREA TODAY

PART A: THE BASIS OF THE MONETARY SYSTEM

Introduction

The unit of account in the Malayan currency area is the Malayan dollar, still sometimes referred to as the 'Straits dollar'. 'Money' may be defined as anything which has a fixed value in terms of that unit of account commonly accepted as a medium of exchange. In the Malayan Currency Area only the currency notes and subsidiary coins of the Board of the Commissioners of the Currency, Malaya and British Borneo, together with the current accounts in the area's banks can be considered money.

Those persons who still possess pre-war currency notes, Sarawak currency notes or Straits Settlements banknotes are able to redeem these one-time moneys at the relevant government offices or banks, but these items would not be accepted at par in everyday transactions, and they are not, therefore, money. Until 1952 the money of Malaya included many silver coins, overvalued in terms of their silver content, but, due to the rising price of silver, they have proved too difficult to keep in circulation and have had to be withdrawn. They do not qualify as money. Only the nickel, cupro-nickel, and bronze token coins can be included in the short list of current 'moneys'.

Legal tender money is that which when tendered is considered to effect a legal settlement of a debt, providing it is offered in the correct amount. The only tender which is legal for unlimited amounts in the Malayan currency area are the currency notes of the Board of Commissioners. Subsidiary coins and notes are legal tender only to the amount of two dollars.

The banknotes outstanding are still listed as liabilities of the bank of issue even though they are no longer money. They concern the historian more than the student of current economic organization, for the physical banknotes probably no longer exist—except in museum or private collections of old notes. Demonetized coin will be accepted at face value for the time being, and the government will sell

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as bullion any such coins turned in, crediting the proceeds to the currency fund. The subsidiary coins are not of interest to the economist, except in so far as a shortage of them might somehow affect ordinary transactions or prices, a rather remote likelihood in the Malayan Currency Area.

The study of money in Malaya today revolves around the government currency notes and the current accounts deposited in the banks. The study of the first of these two items carries the student into an examination of the currency funds, their relation to sterling, and their effect on the economy of the country. The study of the current accounts leads to a consideration of the banking structure, the relation of the banks to each other and to the London money market, the loan policies of the banks—since through loans the money supply of the area may be changed—and, finally, the relation of the banks to the Currency Board.

In this chapter any analysis that is made will assume that there is an intention to maintain the essential features of the present colonial currency system. Criticism can be made on two levels. First, there may be difficulties within the system itself; secondly, the system may be the cause of the troubles. This chapter is concerned only with the former.

Government Currency Notes

'Government currency notes' is the term used to designate the notes issued by the Board of Commissioners of the Currency, Malaya and British Borneo. It also includes those post-liberation notes which were issued by the predecessor to the present board, a board in which only the Malayan Union, Brunei, and Singapore participated. The assets and liabilities of the old board were assumed by the new when the Currency Agreement, 1950, came into effect in 1952.

Unlike many banknotes—or, for that matter, the Japanese occupation notes—the Malayan currency notes make no promise to pay. They merely contain a legal tender statement. The currency notes do not then represent some specific commodity, say, silver or gold, which they may be used to obtain at a fixed rate. This irredeemable paper currency has value, like any money, because people are willing to hold it, and eventually, because people are willing to accept it in payment of amounts equivalent to the sum appearing on the face of the note. The Government, for example, accepts them in payment of taxes.

Although the currency notes are not exchangeable for anything specific, they can be used to purchase the goods and services available in the currency area. The backing of the government currency notes is, like any currency, first of all the total goods and services produced in the country or area. The notes have, however, a more specific backing, even though the public is not immediately concerned with it.

The Currency Fund is a fund maintained by the Board of Commissioners, and as they issue the currency notes, these notes are listed as a liability of the Fund. Nickel and cupro-nickel, and bronze coins in circulation are also a liability of the Fund, but a liability which is partially offset by the corresponding asset—the bullion value of the coin. Since the coin is overvalued in terms of its bullion content, this offsetting asset does not exactly correspond.

The assets of the Currency Fund include liquid assets, investments, and one fixed asset—a house for the Assistant Cashier, Penang. The proportion between the liquid portion of the Fund and the investment and fixed portions has been the subject of considerable debate, but it should depend primarily upon the percentage

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of the currency that is likely to be presented to the Commissioners for exchange into sterling.

The currency notes are backed by various types of assets, by far the largest proportion of which are sterling securities and a sterling current account in London. The other assets, which include silver and cash in the Singapore bank, could all—with the exception of that house—be readily exchanged for sterling. The currency is backed then with sterling, which is nothing more than saying that the backing of notes is the goods and services which an equivalent amount of sterling can purchase.

The par value of the Malayan dollar, the unit of account, is $1/- to 2/4 sterling, but the currency notes are fixed only in relation to the Malayan unit of account, not to the unit of account of the United Kingdom. The currency notes can, therefore, and do fluctuate in value in relation to sterling. The statutory willingness of the Commissioners to exchange a minimum amount of sterling for currency notes and vice-versa at the rate of 2/4, plus or minus a commission of $\frac{1}{8}d.$ on every dollar bought or sold, makes it possible for the holders of currency notes to exchange them for sterling at some rate within the limit of 2/3$\frac{7}{8}$ and 2/4$\frac{1}{8}$.[1] For the purposes of the present exposition, it will be clearer if this transaction is thought of as being negotiated at par, with the payment of a commission. The result of this statutory willingness is that for every 2/4 surrendered to the Commissioners, a dollar is issued; for every dollar surrendered, 2/4 must be found. And the Commissioners receive a profit on each transaction.

While it remains true, then, that currency notes are not convertible in the traditional sense, that is, convertible into some other legal tender circulating in the same area or into some valuable substance which can be stored, the currency notes can be exchanged for sterling. The monetary system of the Malayan Currency Area is linked to that of the United Kingdom and with any area where such a relationship with the United Kingdom is maintained. Monetary conditions in the United Kingdom will have some effect, through the close relationship of the two monetary systems, in the Malayan area.

One factor determining the nature of the currency reserves has now been isolated. The portion of the currency fund which is kept in the form of liquid assets should bear some relationship to the proportion of government currency notes which is likely to be presented to the Commissioners of the Currency for sterling. The tendency in the past has been to make a very conservative estimate of this sum in order to ensure confidence in the currency, even at the risk of losing interest from the securities that might have been purchased. When Sarawak wound up its currency fund, all—or almost all—of the currency notes in circulation were presented for redemption, with the result that the Government had to sell the investments of its currency fund on a falling market and suffer what it listed as a 'conversion loss'. This was an inescapable price to pay in Sarawak's case, but in the past it has caused perhaps unnecessary caution in the management of the Malayan currency fund.

In summary, the government currency note is an irredeemable paper currency with an exchange value fixed in terms of sterling by the statutory willingness of the Board of Commissioners of the Currency to exchange dollar currency notes for sterling and vice versa for a commission. The Commissioners are able to do this

[1]The banks quote spot sterling to the public at 1/32 beyond these limits when they are, at the same time, dealing with the Commissioners. See below, page 54.

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because, in the case of circulating currency notes, a reserve fund in sterling exists, and because, in the case of new dollar notes, an equivalent amount of sterling has been deposited. As for the origin of the dollar notes—the Commissioners print them.

The position may be clearer if the consequences of such an exchange as has been described above are examined in detail.

Assume that a Malayan resident has an account with a British bank in the United Kingdom and wishes to remit a portion of it to his account with a bank in Singapore.[1] Normally, any person would allow the bank to undertake these transactions without recourse to the Commissioners, but for purposes of illustration, the usual procedure will not be followed. The Malayan lodges say £10,000 (plus commission) with the Crown Agents in London for the credit of the Commissioners' account. The money supply in England remains the same, for there has merely been a transfer of funds from one current account to another.

The Malayan is now entitled to £10,000 worth of government currency notes at the rate of 2/4 to the dollar, providing as supposed above, he pays $\frac{1}{8}d.$ commission on every dollar purchased. Although the Malayan receives in currency notes $85,714/29 he must pay a commission of $\frac{1}{8} \times 85{,}714/29$ pennies, or £44 : 12 : 10. The accounts of the currency fund would register the transaction in the following way. Notes in circulation would show an increase of $85,714/–, and the various coins in circulation item would show a total rise of $–/29. An offsetting increase in assets would be 'currency fund sterling account, London (Deposits) + $85,714/29.

The Crown Agents received, however, not the equivalent of $85,714/29, but the equivalent of $86,096/85. The difference is the commission of $\frac{1}{8}d.$ for each dollar sold, a sum which is credited to the Currency Fund Income Account. In the final statement of that account it will be included in the item 'By Commission on T.T. London'.

If it is assumed that this is the only transaction of the year and that the currency fund had no expenditure, then the gross income of the account and the net income will be the same, i.e. $382/56. Assume that the value of the currency fund at the end of the year is x, then by law $\cdot 01x$ must be transferred to the currency account from the income account at the end of the year unless the value of the fund is more than 110% of the face value of the notes and coins in circulation. $\cdot 01x$ is then subtracted from $382/56 and entered on the Currency Fund annual balance sheet under the major heading 'Excess of Assets over Liabilities Account'.[2]

The remainder of the commission earned by the Malayan's transaction, i.e., $382/56 — $\cdot 01x$, is then transferred from the assets of the currency fund to a separate account, the Malaya and British Borneo (Currency Surplus) Fund, to await distribution to the various governments participating according to a previously agreed percentage system.

The Malayan resident has been responsible for an increase in the money supply of Malaya equal to $85,714/29. It is possible, of course, that the participating governments receiving their share of the sterling profits from such a transaction may need local currency for some purpose or other, in which case there would be a further increase in the money supply of Malaya and British Borneo. The Malayan

[1]This is purely a hypothetical example to illustrate certain working relationships.

[2]A fuller description of the regulations pertaining to the currency funds is given in the section entitled 'Currency Fund Accounts' below.

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has given up sterling, but that sterling is now in the possession of the monetary authorities until distributed, and in any case it remains an asset of the area until expended on goods and services in the United Kingdom, if by 'goods' foreign exchange is included. The expansion of the money supply in Malaya as shown above does not involve any burden on the individual Malayan that is not inherently implied by the nature of money itself. That is to say, it is true that the Malayan cannot spend his sterling on goods in the United Kingdom *and* exchange it for dollars, and put in this way, no one would suppose that this would ever be possible.

There may be a misconception of the nature of the sterling-dollar conversion in the minds of many people. They suppose that the Malayan is giving up some net quantity or right to goods and services, when in fact, he is merely transferring a quantity or claim on goods and services from one area, the United Kingdom, to another, the Malayan Currency Area.[1] By so doing the net claim of the Malayan Currency Area on the United Kingdom for goods and services does not change either; it may, in fact, increase. The sterling surrendered to the Crown Agents by the Malayan resident may be used by them on behalf of the Currency Fund to invest in sterling securities, which will earn interest. The interest will be an item in the income account of the fund and will eventually find its way to the Malaya and British Borneo (Currency Surplus) Fund for distribution in the manner described above.

In order to make this sterling-dollar relationship clearer—and it is the essence of the colonial monetary system as well as its most misunderstood aspect—consider the case of the Malayan resident transferring dollars to the United Kingdom. Assume that he has $100,000/–, the minimum with which the Commissioners will deal, and that he has this sum in cash. To assume that the funds were in a Singapore bank would be to introduce the subject of current accounts and the Malayan banking system, a subject which is being purposely postponed.

The Malayan resident pays in the lakh of dollars to the Commissioners in Singapore. The currency fund account is changed to show the notes in circulation as down one lakh, and the money supply of the area is less by the same amount. The Malayan is credited by the Crown Agents in London with £11,614/11/8, and the Income Account of the Currency Fund is credited with the commission, £52/1/8, while the assets as shown on the annual balance sheet will show a decrease in the item "Currency Fund Sterling Account London (deposits)—£11,614/11/8". The commission will find its way, as in the sterling to dollars transaction, into the Surplus Account for eventual distribution.

The money supply in the United Kingdom has remained unchanged, the current account of the Currency Fund having been drawn down to the same amount as the the Income Account and the Malayan's current account in London has been increased. The sterling assets of the Malayan area remain the same, having just been transferred from one Malayan (the Currency Fund) to another. This would not have been the case if the transactions had been carried out by the Commissioners on behalf of a non-Malayan resident; however, it must be assumed that the non-Malayan resident obtained the dollars which he presented to the Commissioners as a result of having sold some goods or services to or received some debt due from

[1] *Cf.* B. M. Niculescu, 'Sterling Balances and the Colonial Currency System: A Comment', *Economic Journal*, LXIV (September, 1954), pp. 618–619, which presents a clear statement of the issues involved. Full discussion of this subject is better postponed until the chapter dealing with proposed reforms of the Malayan Currency system.

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a Malayan or, perhaps, having transferred from sterling in the first place. As was pointed out before, the money in the hands of Malayans or the sterling to their account will suffer a net loss when goods or services are purchased from the United Kingdom direct or from some non-resident of Malaya. The sterling is not lost or gained by the mere exchange of sterling for dollars or vice versa when performed by a Malayan resident.

The government currency notes seem then to be nothing more than sterling notes, denominated in dollars instead of pounds, shillings and pence. Unfortunately, the matter is not so simple. In the first place the government currency note is not the simple counterpart of the pound sterling banknote. If it were, the surrender of a sterling banknote in England would take it out of circulation just as surely as the surrender of a Malayan government currency note to the Commissioners of the Currency in Singapore takes it out of circulation. The effect of a dollar-sterling exchange transaction is not identical in Malaya and in the United Kingdom, as it would be if the matter were simply one of nomenclature. When pounds are changed for dollars, the money supply in England is unchanged; when dollars are exchanged for pounds the money supply in Malaya falls.

This is sufficient to describe the relationship of the Malayan dollar to sterling, and any analysis must wait until the section below when the colonial currency system as it applies to Malaya is criticized as a system. In this chapter, the only concern is with the system as it exists and with changes that may be made within the system itself.

The Working of the Currency Commissioners' System

The currency of the Malayan Currency Area is issued by a Board of Commissioners appointed under the provisions of the Currency Agreement, 1950. The chairman of the Board is the officer who is for the time being lawfully discharging the duties of Financial Secretary of Singapore. There are four other members of the Board, the officer lawfully discharging the duties of Financial Secretary of the Federation of Malaya, one person appointed by the Governors of British North Borneo and Sarawak and the British Resident, Brunei, and two persons appointed by the Governments concerned, but representing no particular territory.[1] The duties of the members of the Board are separated from their other duties, as shown by the careful wording of the Act.

The Board inherited a working system, and they have not, as yet, considered any radical changes in the nature of that system. The Commissioners of the Currency, as the members of the Board are named, maintain a staff, the administrative officer of which is the Secretary to the Board.[2] It is the function of this staff, stationed in the Board's offices in Singapore, Kuala Lumpur, Penang, Jesselton, and Kuching, to keep the physical aspects of the currency system operating efficiently. That is to

[1]Members of the Board of Commissioners of the Currency in December, 1954 were as follows: T. M. Hart, Esq., M.C.S., Chairman and Acting Financial Secretary of the Colony of Singapore; A. N. Goode, Esq., the member for British Borneo; E. M. Himsworth, Esq., C.M.G., Financial Secretary of the Federation of Malaya; and the two members-at-large—Dr. F. C. Benham, C.M.G., C.B.E., Economic Advisor to the Commissioner-General for South-east Asia, and G. A. P. Sutherland, Esq., Manager, Singapore Branch, Chartered Bank of India, Australia and China. The original plan of Sir Basil Blackett as outlined in his 1934 report was to take the two members-at-large from the business or banking communities in Singapore and Malaya. Since many of the suggestions advanced by the Board relative to the currency require the co-operation of the banks and effect the business community, Blackett's suggestion is most sound, and, Mr. Sutherland, a new member, is the President of the Malayan Exchange Banks Association.

[2]The Secretary to the Board, Mr. J. M. H. Hill also performs the duties of an assistant Financial Secretary, Singapore.

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say, it is the duty of this staff to order notes from the printers in England, to handle them upon arrival in Singapore, to store them, account for them, and finally, to issue them in accordance with the existing regulations promulgated by the Governors under the Currency Agreement. Old and damaged notes brought in for exchange must be counted and destroyed, although the responsibility for this is shared with the Accountant-General's department.

The expenses of the staff, of the printing and shipment of the notes, and all the other housekeeping expenditures involved are a charge on the income account of the currency fund, and must be subtracted from gross income in order to find the net income to be divided between the currency fund and the Surplus Fund.

The Board, therefore, has very little to do with the routine of currency issue, but there are problems which must be discussed at the meetings which are held in Singapore.

The Currency Agreement, 1950, left two questions undecided—the commission rates and the minimum amounts the Commissioners would handle. The Commissioners recommended to the Governors of the participating territories that the commission charge should be $\frac{1}{8}d.$ on every dollar sold or redeemed. Involved in this decision, marking as it did a narrowing of the limits within which the bank's exchange rates could fluctuate, was a more basic question than the amount of income from this source to be received by the Currency Fund.

The question of the minimum sum which the Commissioners are willing to handle for transfer from dollars to sterling and vice versa is allied to the problem of the commission rate. In lowering the commission rate, the Board felt obliged to set a high minimum figure—$100,000/- or £10,000—to indicate to the public that the Board considered ordinary exchange transactions to be the function of the Exchange Banks. The Board would only handle large net purchases of dollars or sterling. The advice of the Board on both matters was accepted by the Governors and promulgated in 1952 in the form of currency regulations.

A new Board with a new name had the problem of approving the design of new notes, a task which coincided with a new reign. The notes were approved and first issued in 1954.[1] Demonetization of pre-invasion notes was a further topic of discussion. The pre-invasion notes were no longer 'money', but they remained liabilities of the currency fund. Upon their demonetization the sum of such notes outstanding had been subtracted from 'notes in circulation', and a new item, 'reserve to cover redemption of pre-invasion notes' had been created. This simply indicated that certain unspecified assets had been set aside for the purposes of redemption. It was not expected, however, that all the notes outstanding should be submitted for redemption, and there was no need to maintain 100% cover against them. The Board decided in 1953 to reduce the cover on these pre-invasion notes by $1,000,000, and an equivalent amount of assets were distributed to the governments or their successors which had been responsible for the issue of these notes, i.e., the Federation of Malaya (76·9%), Singapore (22·25%), Labuan (·1%), and Brunei (·75%).

The Board also discussed wages and other employee matters, the need for new equipment, the purchase of a house for an assistant accountant, the payment of the participating governments for the use of their employees on currency matters where the amount of work did not warrant a full-time employee of the Currency Board.

[1]The approval by the Board of a currency design must receive the final approval of the Secretary of State.

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Relative to the two problems of investment policy and profit distribution, all the rest are of minor importance, and to the extent as they fall within the scope of this chapter, both must be dealt with in full.

Investment policy. By far the greatest proportion of the income of the Currency Fund comes from dividends on investments. Only a portion of the Currency Fund may, however, be invested, and one of the most important decisions for the Board to make is the size of that portion. The 1899 currency ordinance solved this problem by statutory designation of alternatives, but the 1950 Agreement reads:

> "Provided that a proportion of the Fund shall be held in London in liquid form and such proportion may be determined and varied from time to time by the Commissioners having regard to their ability to meet reasonable demands for sterling in exchange for currency."

Should the Commissioners underestimate the future demands for sterling in exchange for currency, securities could always be sold, but this might involve the Fund in a capital loss. The question is one of balance between certain loss of income and possible capital loss. In any case, very high liquid reserves are not as necessary today as they were in 1899 when the currency notes were redeemable in silver dollars for the asking. The liquid portion then was a minimum of 2/3rds of the Note Guarantee Fund; the maximum of the liquid portion in today's currency fund is, by decision of the Commissioners, 10%.

This leaves at least 90% of the Currency Fund free for investment, but the problem arises, what kind of investment? The 1950 Agreement says:

> "The Fund may be invested in such sterling securities of any Government of the United Kingdom or of the Government of any part of His Majesty's dominions other than any of the Participating Governments or in such other securities as may from time to time be approved by the Secretary of State . . .".

Before considering the source of issue of the securities, there is another problem closely allied with that of liquidity. Short term investments are relatively more liquid than long-term, but the income from short-term investments is not as great. Since price fluctuations on short-term investments are less than those on long-term, short-term investments provide a margin against too great a loss should the Commissioners find that they had underestimated the demand for sterling in exchange for dollars and be forced to sell securities on a falling market.

In 1952 the Commissioners decided that they had 'excessively large' short-term investments.[1] In 1952 and 1953 the Commissioners sold short-term and bought long-term, anticipating that the increased income would offset the loss suffered on the sale of the short-term investments, a loss which in 1952 amounted to $5,146,569/95 and in 1953 to $939,529/75.

The most important issue in the investment policy of the Board of Commissioners—whether in Malaya or in other colonial territories—is the question of investment in local securities. This problem can be discussed at two levels. The first or 'Can't possibly be done, destroy the currency' level can be dismissed quickly. The one or two government officials who approached the problem from this point of view were unaware that the Straits Currency Fund held Straits sterling

[1] *Report of the Commissioners of the Currency Malaya and British Borneo, 1952* (Singapore: Government Printing Office, 1953), p. 6.

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securities from 1913 to 1936, without any bad effects.[1] The second level of discussion is that of examining the merits of the case.

The Crown Agents' working-rule on investing colonial funds is that at least 70% should be in United Kingdom government securities. The cost price of securities held by the Malayan Currency Fund on 31st December, 1953, was £90,393,320/8/9 ($774,799,889/46), of which 19·95% were colonial or Commonwealth securities.[2] When consideration is taken of the fact that the governments of the territories participating in the Malayan Currency Area possessed sterling balances, part of which was invested in colonial sterling securities, it will be realized that under the present Crown Agent policy, there is not much opportunity for further investment of the Malayan currency funds in colonial sterling securities.

The Commissioners would have two barriers to overcome should they wish to invest in local securities. First, they would either have to have the Crown Agents' working-rule, which has been approved by the Secretary of State, changed, or they would have to sell their colonial and Commonwealth securities before buying local securities; and secondly, they would have to have changed the section of the Currency Agreement quoted above, 'other than any of the Participating Governments'.

If every currency board in the Empire sold its colonial securities and bought its own, nothing would have happened but a gigantic reshuffle, which might be costly, but which would harm nobody in the long run. Unfortunately, it would not mean that any Colony was thereby in a position to borrow more money on the London market by the simple expedient of issuing its own securities and having its Currency Fund buy them up. First, the 70% rule would have to be waived; second, for a net advantage the securities would have to be of such a nature that the London market would not otherwise have taken them up, or in such quantities that they were not approved by the Capital Issue Committee; and, in such cases, it is doubtful if the Currency Fund ought to take them up either. There has been no *net* increase in the ability of the Colony to borrow funds, the reason for the proposed change.

There are two types of colonial securities which it would be well to separate, the colonial sterling security, i.e. one denominated in sterling and offered for sale in London, and the local colonial security usually denominated in the colonial unit of account and offered for sale in the Colony. The advantage of the former is that they are relatively liquid if possessed by any currency fund, and it would, therefore, be of little consequence if the Malayan Currency Fund did purchase reasonable quantities of them. But, as stated before, there is no net advantage in this, and it is not a change that should be made.

The purchase by the Currency Fund of locally issued government securities is another matter, and the arguments presented in favour of this policy are usually different from those given above. The local security markets of colonial areas are usually undeveloped, and it might be difficult for the Government to float a security issue unless it were known that some large funds were willing to support

[1]The Southern Rhodesian Currency Authority has been permitted limited investment in the securities of the governments which it serves, i.e. 10% in Southern Rhodesian securities, 7% in Northern Rhodesian, and 3% in Nyasaland.

[2]The cost price was chosen to correspond to the expenditure involved at the time the decision was actually made to purchase the security. A further breakdown of the figures shows that the cost price of Colonial (including Palestine) securities purchased amounted to £11,256,177/15/10; other Commonwealth (including the former Colony of Ceylon), £6,298,371/9/–.

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the price of the securities. The Currency Fund then becomes an agent of government fiscal policy.

There is a confusion here between the functions of a Board of Commissioners of the Currency, charged with issuing currency under simple and prescribed regulations, and the functions of a Central Bank in an undeveloped money market. The intention of the Currency Agreement, 1950, was that the Board as constituted should simply insure that the Agreement was carried out expeditiously. Any change of the nature suggested in the above paragraph, is one which alters the entire nature of the Currency Board and would require a separate agreement, one which would be complicated by the fact that the Board now serves several political entities in various stages of development and with various capital needs. Discussion of such a proposal, therefore, does not belong in this chapter. This change would radically alter the present currency system, and whether or not this is advisable is a matter the examination of which must be postponed.

Distribution of Profits. The governments of the participating territories receive the profits of the currency issue every year from the Malayan and British Borneo (Currency Surplus) Fund, and, as the amount is considerable—$24 million in 1954—the determination of the shares going to each Government is a matter of considerable interest. The shares were decided in the 1950 Currency Agreement, but provision was made for new scales to be agreed upon by the Governors as often as necessary.

Chamberlain first wrote of the difficulties that the making of such a scale of profit division would present. Sir Basil Blackett drew up a formula which was based upon 'currency consumption', and this scale was revised after the war by A. L. Birse. The statistics which were available to Sir Basil on average wages were not considered by the Governors sufficiently accurate to form a basis for profit distribution and a new formula was drawn up upon which the scale included in the 1950 agreement is based.

The problem is simply stated. Since the profits arise from the fact that currency notes are in circulation, how many currency notes are in average circulation in each participating territory during the year? Unfortunately, this figure is very difficult to calculate, even though there are currency offices in each of the territories, except Brunei. If there were no communication between the various areas, then the number of notes in circulation could be discovered from the records of issue and cancellation of notes in the various currency offices. If, as is the case, banks ship notes without notice to the Commissioners, and if people carry notes with them when travelling from one territory to the other, the problem becomes so difficult that it defies precise calculation.

The number of currency notes in circulation in British Borneo can be estimated from the records of the currency offices in Kuching and Jesselton. It is unlikely that people will carry large sums of notes from Singapore to British Borneo or from North Borneo to Sarawak. The accuracy of this method would be improved if the customs authorities would notify the currency office of the amount of Malayan currency each passenger is importing or exporting, but, although each passenger has to make declaration of this amount, the records either are not kept or, if kept, are not made available to the Commissioners of the Currency.

The difficulties arise, then, between territories closely connected, i.e. Singapore and the Federation, and Sarawak and Brunei. The banks in Singapore supply currency notes to their branches in southern Malaya from the Singapore office of

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the Commissioners and not from the Kuala Lumpur office, and the Commissioners can hardly ask where the bank is intending to send each note it obtains. Commercial firms with head offices in Singapore and wages to pay in southern Malaya often draw their cash in Singapore. On a smaller scale the problem exists in Brunei, since all money in circulation there has to come either from Kuching or Jesselton, more probably from the former, but it is difficult to tell in what amounts.

In order to determine the scale of profit distribution, the first task was to separate the outstanding currency notes, the whereabouts of which was known. Based on 1947 statistics, it was estimated that about $20,000,000 in currency notes were circulating outside of the participating territories, without, of course, permission, since the export or import of currency notes from Malaya and British Borneo in anything but the smallest sums is not allowed. Secondly, it was possible through the statistics provided by the banks to locate an additional $110,000,000/–, as cash in vault. Finally, it was possible to estimate by the method described the currency in circulation in British Borneo—$19,000,000. Since the gross circulation on 31st December, 1947 was $412,000,000/–, this left a balance of $263,000,000 which was in the hands of the public of the Federation of Malaya and Singapore. As the total population of these two areas was estimated at 5·8 million, this worked out to $45/35 a head.

The formula for Singapore's share in the profit distribution was as follows:[1]

$$(45 \cdot 35 \times 940 \cdot 756) + 72{,}600{,}000 = 115{,}300{,}000$$

or: currency per head of population multiplied by the population of Singapore plus the money held by the banks is equal to the total amount of currency assumed to be in the Colony. Then:

$$\frac{115 \cdot 3}{412 - (19 + 20)} \times (100 - 6) = 29\%$$

or: the total currency in Singapore divided by the total number of notes outstanding which are not supposed to be either in British Borneo or in foreign countries multiplied by the percentage share of the profits not assigned to British Borneo is equal to the percentage share of Singapore. The percentage share of the Federation of Malaya was found by subtracting 29 from 94, i.e. 65%.

Borneo's share had been decided independently of the above formula, and the share of each of the Borneo territories was determined within the 6% limit; North Borneo and Sarawak on the basis of the currency office records, with an adjustment in the latter case to allow for Brunei on a per capita basis. By 1952 it was decided that these shares were not reasonable, since currency consumption had increased more than proportionately in the Borneo territories, and Brunei with its oil developments was certainly entitled to a more than proportionate share of any increase given to Borneo as a whole. In 1953 the new scale was decided as follows: Sarawak 4·89%, North Borneo 4·42% and Brunei 2·25%, a total for British Borneo of 11·56%. The award of the aggregate sum had been made in 1952, and the figures in the formula above would be changed giving different percentages for Singapore (27·28%) and the Federation of Malaya (61·16%).

The real controversy arises out of the assumption that currency per head in Singapore is the same as in the Federation. The Colony of Singapore claims that as its cost of living, its wages, and its standard of living are higher, per capita holding

[1]The formula is the work of Dr. F. C. Benham, economic advisor to the Commissioner-General for South-east Asia.

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of currency is also higher. This assumes, of course, that the relative importance of bank money and currency notes is the same in Singapore as in the Federation, although, with the more developed banking structure in the Colony, this is unlikely. It also assumes that the velocity of circulation is the same in both territories, but this too is unlikely, since the organization of the two economies is so totally different.

It is true that if the profit distribution scale were calculated on the following basis—previous circulation less receipts of currency plus issues of currency—Singapore would have been entitled to 33·25% of the profits of the currency fund in 1950 and some 34·37% in 1952. If allowance is made, however, for the notes held in banks the percentages are most decidedly less: 1950, 31%; 1951, 32·28%; and 1952, 29·48%. This would take into consideration the movement of notes from Singapore banks to Malaya, but not from other sources.

The Federation might counter that as the banking facilities there are not as developed as in Singapore, there is a correspondingly greater use of currency notes to perform the same economic tasks. Again, since communications are slow and business methods in some of the areas not so modern, the velocity of circulation will be slower than in Singapore. On the other hand, much business may be done on credit or through book-keeping entries in the local shops. Finally, peasant farmers and native workers may hoard large sums of notes.

The conclusion must be that there is no objective reason for changing the basis of the formula for profit distribution as a result of the arguments presented above, which, while all interesting and reasonable, are not and cannot be conclusive. The discussions are, however, continuing.

While such problems are being considered, the everyday operations of the Commissioners' staff continue. The currency funds continue to be kept in agreement with the statutes and the regulations. An examination of these funds is the next step towards a full understanding of the Malayan, British Borneo currency system.

The Currency Fund Accounts

The basis for any study of the Currency Fund is the Currency Agreement, 1950, and the Currency Fund accounts as printed in the annual reports of the Commissioners of the Currency. The fund itself came into being on 1st January, 1952, and on that day the new Board of Commissioners of the Currency inherited all the stocks of silver, cupro-nickel, nickel, and copper current coin, investments and other assets including the stocks of unissued notes held on 31st December, 1951, by the Board of the Commissioners of the Currency, Malaya.

In accordance with this clause in the Agreement, the Currency Fund inherited the assets and liabilities of the previous fund intact, and the following items are paid into this Fund:

(*a*) all sterling received in exchange for currency notes or coin;
(*b*) the proceeds of any transactions relating to
  (i) the reminting of coin held by the Fund
  (ii) sale of any coin held for the account of the Fund less the expenses involved.

The Currency Fund is divided into a liquid portion and an investment portion. The latter has been studied in the preceding section. The liquid portion may be held by the Crown Agents on deposit at the Bank of England or in Treasury Bills,

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or may be lent at call to banks or for short terms in such ways or invested in such readily realizable securities as may be approved by the Secretary of State. A further portion of the liquid portion may be held in Singapore, but this amount is kept to a minimum.

The 'Currency Board System' envisages a minimum of 100% reserves against notes and coin in circulation. In order to maintain this minimum, it is first necessary to determine how the value of the Fund is to be calculated. The Agreement states that this shall be its 'current realisable value'. The investment portion must be valued at the current market price of the securities at the time of valuation, and the silver coin held on account of the Fund must be valued at the current market value of silver. From this market price, however, must be deducted an allowance for cost of realization and allowance for depreciation as approved by the Secretary of State. The value of sterling assets is converted into dollars at the rate of 2/4 to $1/-.

If the value of the Fund determined in the manner described above is less than the face value of the notes and coin in circulation, then the principle of 100% reserves has been violated, but there is no provision for automatic action. The Agreement merely states that if the Secretary of State together with the High Commissioner for the Federation and the Governors feel that it is necessary, the deficiency shall be made up out of the general revenue of the participating governments on the same scale as for the distribution of profits. This is not a loophole in the 100% provision in the sense that the provisions of the Agreement could be stretched to allow a positive policy of partial reserves. There is no way that such a positive policy could be carried out, and only serious depreciation of the Fund's investments could bring it to such a position.

Under ordinary conditions the Fund is kept above the 100% mark by annual payments from the Currency Fund Income Account equal to 1% of the value of the Currency Fund, which payments may be stopped when the assets of the Currency Fund are 110% of the notes and coins in circulation. The Income Account receives all dividends, interest or other revenue derived from investments or from the employment in any other manner of the moneys of the Fund, and all commissions paid to the Commissioners in connection with the issue or redemption of currency notes or coin. The items listed above which were paid directly into the Currency Fund itself are capital payments and thus not properly part of an Income Account concerned with current transactions. From the Income Account are paid all current expenses—those incurred in the preparation, transport, issue, redemption, and demonetization of currency notes and coin and in the transaction of any business relating to such currency authorized by law, and those incurred by the Commissioners for the protection of the currency against counterfeiting or forgery of coins or notes. Exceptional expenditures, even though they may come within the above categories, may be charged against the Fund, for they could be considered capital charges. Permission for thus charging against the Fund must come from the Governors and the High Commissioner for the Federation of Malaya. Finally, the sum equal to 1% of the value of the Fund is charged as an expenditure of the Income Account.

If after these expenditures have been met, it proves that the expenditures are greater than the income of the Income Account, the deficiency must be made up by the participating governments on the same scale as the profit distribution. In this way the current expenditures of the Commissioners will not be met out of capital,

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and the Currency Fund will not depend upon the state of the Income Account for its 1% annual appropriation from that fund.

Usually the Income Account has a surplus. The whole of this surplus must be paid into the Currency Fund if the face value of the notes and coin in circulation is greater than the value of the Fund. If this payment is not enough, then the general revenues may be called upon as described. If the value of the Fund is between 100% and 110% of the face value of the notes and coin in circulation, then the surplus of the Income Account, the 1% appropriation having already been transferred to the Currency Fund, is transferred to the Malaya and British Borneo (Currency Surplus) Fund for distribution to the participating governments. If the Currency Fund has a greater than 110% reserve against notes and coin in circulation, then the whole of the assets over 110% shall be transferred to the Income Account and the annual 1% appropriation may, with the sanction of the Secretary of State, be discontinued.

The third of the currency funds under the supervision of the Commissioners is the Malaya and British Borneo (Currency Surplus) Fund. The fund inherited the undistributed profits of the All-Malaya (Currency Surplus) Fund, but it was decided in the Agreement that the inherited surplus should be distributed according to the new Currency Agreement, 1950, and not according to the post-war Birse scale, which was relevant only to those governments participating in the 1938 agreement. This decision was made applicable to surpluses accumulated since 31st December, 1946—all the inherited surplus—and was the result of an understanding reached among the governments concerned as soon as the idea of a Malayan Currency Area had been accepted in principle.

The scale of distribution is contained in the Currency Agreement, 1950, but it can be changed, and any new scale will go into effect in the following financial year. If the Commissioners cannot decide on a new scale or agree to maintain the old, the dispute is referred by the Governors and the High Commissioner to the Secretary of State for final decision. This has not happened as yet, but the Colony of Singapore is not satisfied with its share.

An exception to the new scales is made in the case of any profit gained from the demonetization of currency notes issued by the previous Boards of Commissioners —of the Straits Settlements and of Malaya—providing the notes bear dates prior to 1st July, 1941. The Birse scale is applicable to these payments. Following from this exception, an argument was presented to the effect that the appreciation of investments made by the previous Boards should only be enjoyed by those governments which participated in the decisions of previous Boards. However, as the new Board accepted all the assets of the previous Boards, all participating governments stand not only to gain but also to lose from changes in the market value of securities. Since they carry the risk of loss from depreciation, they should—and do—enjoy the capital gain from appreciation of the investments in the Currency Fund.

The Currency Agreement calls for the monthly publication of the value of notes in circulation on the first of each month, together with the average circulation for the previous month. By circulation is meant the gross circulation, and this includes currency notes in government treasuries and cash in the banks. The Commissioners also publish the active note circulation, that is, the value of currency notes in the hands of the non-banking public, a most useful figure for economists. Semi-annually the Commissioners must publish the state of the whole Currency Fund, including the list of investments and their market value. Annually, the Commissioners publish a separate report containing the accounts and a summary of the

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year. It is from this annual report, which occasionally includes an historical survey, that the most useful information may be gained of the working of the 'currency board system'.

Banks in the Malayan Currency Area

By far the most important element in the money supply of the Malayan Currency Area is bank money, i.e. demand deposits in commercial banks against which cheques can be drawn. The relative quantitative importance of bank money is accentuated by its relatively greater velocity of circulation, and the study of the banking system, therefore, forms an important part of any study of money.

Commercial banks. With the exception of the Kwong Lee Bank, all banks in Singapore are members of the Malayan Exchange Banks Association, which, in June, 1953, had twenty-six members, including the Chartered Bank of India, Australia, and China, the Hongkong & Shanghai Banking Corporation, and the Oversea-Chinese Banking Corporation. The Kwong Lee Bank failed to reach the minimum paid-up capital requirement, $2 million, for membership in the Association. Seven of the member banks are incorporated in Singapore; there are three American banks; and there are also Dutch, French, Indian, and Chinese banking institutions. Of the fifteen banks operating in the Federation, all but three have branches in Singapore and are therefore members of the Malayan Exchange Banks Association.

The term 'exchange bank' is not one so usual but that an explanation may be helpful. Originally, the term referred to those banks dealing with the Eastern exchanges, with the problems of converting gold into silver, and the territory of their operation has been referred to as the 'realms of silver'.[1] In fact, as was stated in the first chapter, the banks in the early Straits Settlements were mainly concerned with exchange business, hardly at all with current accounts and with operations not directly concerned with trade. It might have been useful then to contrast the exchange banks' operations with those of the native banks—to borrow a term used in describing banking in China—or the foreign-style local banks. Today such a distinction would be misleading. Although it is true that the 'four or five overseas banks account for about two-thirds of the total deposits and for over 80 per cent. of the overseas assets', they account for about 'half of the local advances, etc.'[2] This is a significant change and shows that the difference between the overseas exchange banks and the local banks is now one of degree resulting, perhaps, from different traditions of banking and from the different associations the various banks have with the business community.

In one sense of the term, 'exchange bank' today means only a bank, the main office of which is overseas. Perhaps the only consistent use of the term is, however, as a synonym for 'commercial bank', and it is in this sense that it seems to be used in the title 'Malayan Exchange Banks Association'.

The old distinction between exchange banks and local banks is not applicable today, but there are still distinctions. The overseas bank tends to concentrate on the finance of trade and the requirements of the larger firms. The local banks, with their local business associations, particularly in the smaller banks where clan relationships may be important, tend to finance smaller concerns after decisions

[1] Sir Compton Mackenzie, *Realms of Silver* (London, Routledge and Kegan Paul, 1954).

[2] International Bank for Reconstruction and Development Mission, *The Economic Development of Malaya* (Washington, D.C., 1955), pp. 472–473.

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based on specialized information. But even this is not always so. The local banks are especially involved in the finance of the import trade and in the movement of small-holder's rubber, and the overseas banks have been responsible for medium-term investment in local industry.

It is true, however, that the bulk of the banking system's sterling reserves are held by the British banks. The inter-bank market for sterling coupled with access to the Commissioners' at the limits all but eliminates the advantage the overseas bank might obtain from this fact, and the situation is not the inevitable result of the present banking and monetary organization of the area. Quite naturally, local banks tend to hold local liquid reserves to a greater proportion than the overseas banks, and they can obtain sterling when necessary and can do business in London through their correspondent banks there, for it is one of the important developments of British banking that foreign operations are no longer exclusively in the hands of the old exchange banks. In their dealings in London, the overseas banks (or 'old exchange banks') have other advantages over the local banks, but the possession of the bulk of the banking system's sterling is probably not one of them.

The Malayan Exchange Banks Association is responsible for setting the service charges on current accounts, the best agreed merchant rates for the sterling exchange, internal transfer charges, and the rates of usance bills. Rates for usance bills are based on the T.T. rate plus interest for the period of transit plus interest—at the *London discount rate*—for the usance period, for such is the close relationship of Singapore and London, that a higher rate would find no business in the Colony. For this reason, too, all interest rates tend to move with the London rates, and in the first half of 1955, the Association raised its rates on eight different occasions. For example, the bank rate was raised from 3% to 3½% on 27th January, and, as from 14th February, the Association raised the agreed minimum rates of interest for dollar advances from 4% to 4½%. By June, 1955 the rates were as follows:

Advances against Government and/or Municipal Securities	5%
Clean advances	5%
Advances against commodities	5%
Advances against stocks and shares	6%
Advances against property	6½%

There is no clearing house association in Singapore; the Malayan Exchange Banks Association does not perform this function. At present, banks keep inter-bank accounts with one or more of the leading banks, and clearing is done through these accounts or directly by messenger. A suggestion that such a clearing house association be formed and that it be the basis of a central bank has come to nothing, and the inspiration for a central bank has come more directly.

Commercial banking in the Borneo territories is less developed. In Sarawak facilities are provided by the Chartered Bank in Kuching, Sibu, and Miri, by the Kwong Lee Bank in Kuching and Sibu, and by the Bian Chian and Overseas-Chinese banks in Kuching. Two smaller 'trading' banks, the Hock Hua and the Wah Tat, operate in Sibu. The Chartered Bank is now, as it always has been in this territory, the Government's bank. Only the Hongkong & Shanghai Banking Corporation, with branches at Brunei Town and Kuala Belait, near the Seria oilfields, operates in the rich State of Brunei. In relatively poor North Borneo, there are two banks. The Hongkong & Shanghai Bank has branches at Jesselton, Sandakan, and Tawau; the Chartered Bank, at Jesselton, Sandakan, and Kudat.

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Other banking institutions. Commercial banks are not especially designed to meet all the needs of an undeveloped area, and it is in the fields of rural credit, finance of small-scale industry, and the provision of medium and long-term capital that other types of banking institutions are required. The caution required in traditional banking precludes involvement in that very section of the economy which must have financial assistance if the area is to develop.

Rural credit is a very serious problem in the Federation where the notorious *padi kuncha* system prevails in most *padi* producing areas. Under this system peasants buy on credit from local merchants pledging in return some amount (*kuncha*) of the future harvest, thus concealing interest rates as high as 22 per cent. per month in extreme cases. To combat this system, the Federation has encouraged the growth of co-operative banks. There were, in 1955, ten regional banking unions composed of 90-130 co-operative banks. At the top of the structure is the Apex Bank, which is furnished funds by the Federal Government and which distributes them down through the regional banking unions to the co-operative banks. Interest rates vary between 6% and 7% per annum. Sarawak also has a Co-operative Bank which is at the top of a structure of rural savings societies. Co-operatives may borrow from the central bank. The other territories are encouraging the growth of such institutions.

With the exception of North Borneo, all the territories of the area have post office savings banks, and total deposits had reached $169 million at the end of 1954. An additional $141,000 were saved under the students' saving schemes of the Federation and Singapore governments. Commercial banks provide savings facilities in addition to the post office banks. During the first half of 1955, deposits into the Federation's Employees' Provident Fund exceeded withdrawals by $20 million. The effectiveness of a similar fund, the Central Provident Fund, instituted in Singapore in 1955, has been threatened by a decision to exempt employees with salaries below $200 a month from making contributions, and the other territories have not, as yet, instituted such a scheme.

The provision of funds to new industry and to other schemes of a community development type has not been overlooked. The Colonial Development Corporation and Colonial Development and Welfare Act have made funds available to the Area. The C.D.C. has been active in the finance of the Central Electricity Board, industrial estates, housing, and—one of its more recent ventures—cocao production. The territories have their own local institutions for providing funds to industry—e.g. the Rural and Industrial Development Authority (R.I.D.A.) in the Federation and the Credit Corporation of North Borneo. Brunei has funds available for small enterprises, but no separate organization to administer them. Funds are also available for replanting of rubber, for mechanization of the fishing fleet, for the settlement of hill tribes in North Borneo, and for semi-public bodies for development of housing estates and other social facilities.

Perhaps R.I.D.A. is the most ambitious of these various schemes, reaching down as it does to the *kampong* level and affecting the everyday life of the citizens. It is decentralized in its control and has funds available for both business and social schemes. Originally inspired by the need to provide funds for the Malays of the Federation—since their Chinese fellow-citizens were receiving certain benefits in the 'new villages'—R.I.D.A. is now basic to the development plan of the entire country.

These varied institutions are better suited than commercial banks to the requirements of development. Commercial banks can, however, play a part. The Chartered

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Bank, for example, following an African precedent, has formed a wholly-owned subsidiary, the C.B.I. Development Corporation, with a capital of £2 million. Its area of concentration is Burma and Malaya, but as the company was founded only in November, 1955, it is too early to make any comment on it, except to refer again to the success of the African precedent.

The inter-bank market for sterling. The origin of the Commissioners' effective rates for sterling-dollar exchange transactions is the gold points. Under the gold standard, as long as persons desiring sterling could purchase it for less than the cost of exporting gold to the United Kingdom and selling it for sterling, they did not involve themselves in the costly business of exporting the gold, but merely purchased the sterling from persons desiring to sell, a transaction usually performed through a bank.

It was convenient in a previous section to discuss the purchase or sale of sterling through the commissioners as if this were the only way in which such a purchase could be made. It was also convenient to describe the Commissioners as doing business at par but charging a commission on the basis of every dollar bought or sold. This is technically correct.

There is, however, another way of describing transactions with the Commissioners. By analogy with gold-point terminology, it can be said that the Commissioners do business at arbitrarily set gold-points, and that persons will do business with the Commissioners when, under the gold standard conditions, they would have exported or imported gold—assuming that the arbitrarily set points were actual gold-points. At all other times people will find their sterling or dollars elsewhere. It can also be said that the Commissioners stand ready to buy sterling at 2/4⅛ and sell at 2/3⅞.

Rates at which the banks will do business with the public fluctuate between these two limits and 1/32nd of a point beyond—to allow for the bank's margin when it is forced to deal with the Commissioners. That the public is willing to pay the bank this additional 1/32nd is due to the fact that very few people deal in sums as large as £10,000 or $100,000. If they do not, the 1/32nd is a negligible sum; if they do, they can deal with the Commissioners, but even then, they usually find it convenient to deal through the banks.[1]

There is a rate of exchange in the true sense of that phrase for sterling in the Singapore inter-bank market. The Exchange Banks quote a buying and selling rate for various types of transfers, T.T., D.D., M.T., and for forward exchange; these rates change following pressure in the inter-bank market, and the difference between buying and selling rates is ⅛*d.*[2] If a bank finds itself in an oversold position, it goes into the inter-bank market and buys sterling from some other bank at a special inter-bank rate. Should the demand for sterling continue to increase, a new inter-bank rate will be quoted, for the market is, unlike the agreed rates quoted to the public, highly competitive. Eventually the situation may arise whereby the banks cannot find sterling in the inter-bank market at any price; they will then buy from the Commissioners of the Currency at 2/3⅞ and sell to the public at 2/3·27/32. It is only when the exchange transaction is brought before the Commissioners that there is a net change in the gross currency supply of the Malayan Currency Area. Any other sterling-dollar transaction merely involves an

[1]See page 27.

[2]This ⅛*d.* represents ·45% gross profit on the transaction, but this is realized only if the bank buys as much as it sells *to the public.*

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exchange of assets between the public and the banks or between members of the public through the agency of the banks.[1]

By the present system, the public has to pay for what is essentially a simple substitution of one Empire currency for another, and while no one supposes that the banks can afford to perform this service for nothing, the question arises as to whether the price—·45% gross on the transaction at the maximum—is too high. If the operation is really just a substitution, should the public be involved in exchange risks, which, while they are not great, do exist? The present system keeps the form of an exchange operation. Are the variations in exchange allowed by the practices of the Commissioners sufficient to have any real significance, or are they forms which could easily be dispensed with?

While it is not true that the Malayan dollar is simply the result of a pure substitution for a sterling note, since the sterling continues in existence when sold to the Commissioners whereas the dollar does not, it is true that the Commissioners are always in a position to effect a substitution of any sum, even if they have to sell securities to obtain liquid assets. Therefore, one proposal goes, why is not this fact given real expression by the Commissioners standing ready to buy and sell without any commission, the expenses of their operations being more than covered by the income from securities and interest on deposits?

The Exchange banks have always been opposed to any narrowing of the permissible exchange rate fluctuations, and since a large proportion of their business is in exchange, the above proposal seems at first glance to be tantamount to the elimination of the Exchange Banks. This is, of course, ridiculous. It is impossible that the Government should have all the bother of exchange transactions, some of them for trifling amounts, and perform them all for no cost. In any case the Commissioners are only competent to handle T.T.

The Hong Kong Exchange Fund deals only with the three note-issuing banks in that colony, and it has long been the fact that Currency Boards have dealt mainly with banks despite the actual statutory provisions. A proposal to limit the dealings of the Malayan Commissioners to the banks would not be without precedent. The real issue involved in the plan to eliminate the currency spread is the question of the function which exchange fluctuations perform.

The International Monetary Fund allows a currency to fluctuate 1% of its value on either side of the declared par—about ¼ of a point when par is 2/4. Until the Bank of England widened the spot spread for sterling, the dollar price of sterling was allowed to fluctuate ⅛ of a point on either side of $2.80 U.S. currency. Effective 17th December, 1951, this spread was widened to allow for fluctuations between U.S.$2.78 and U.S.$2.82. The United Kingdom had found a narrow spread unsatisfactory, and this information is relevant to analysis of the relation of the Malayan dollar to sterling.

[1]The Singapore Government also uses the interbank market for sterling rather than deal with the Commissioners, unless, of course, the best rate the Government can obtain from the banks is equal to or greater than that offered by the Commissioners. Assume that the U.K. War Office paymaster needs dollar funds to pay local employees and troops. He will approach the Hongkong and Shanghai Bank and the Chartered Bank who will quote him a rate. The paymaster will then sell his sterling to these banks, i.e. buy his dollars from them for sterling, and the two banks will make the sterling they have received available in the interbank market. Should any other large bank really need sterling immediately and in large quantities, if they face a temporary crisis, that is, that bank might well offer the paymaster a lower rate and so undercut the two leading exchange banks.

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The objections to the narrow rate were three:

"(*a*) the arrangements have provided incentives for merchant speculation because there was little risk in a short sterling position;

(*b*) the authorities have been forced to defend rates within narrow limits and have been unable to withdraw under temporary pressures; and

(*c*) the monetary authorities have been forced to provide spot exchange and, for forward cover, to assume substantial risks as well because there was no functioning private market to take care of commercial requirements."[1]

Part of the Bank of England's troubles was the result of varying rumours that the U.S. dollar-sterling official rate was to be changed. If the roumour was to the effct that sterling would be devalued, there was a disequilibrating speculative movement into U.S. dollars since the risks involved in holding a short sterling position were non-existent. In the case of Malaya, it may be argued that the rate of exchange has been fixed since 1906, and there is no reason to suspect a change. Changes have, however, been predicted, and there were strong rumours at the end of both world wars that the rates would be changed. With the political autonomy of Malaya in the near future, and with the possibility that some unwise politician will wish to tamper with the currency, this is a matter of concern.

Reason (*b*) is not applicable to a currency which has 100% reserves and is operated on the 'currency board system'. Reason (*c*) in so far as it is relevant in Malaya suggests that if the transactions of the Commissioners were at par, the inter-bank sterling market would disappear, and that the Commissioners would be forced to perform all the small transactions, unless the banks cared to hold dollar balances. The banks will, however, prefer to keep their reserves in the place where they can be put out at interest, and this means that the banks will generally keep the vast bulk of their reserves in London, if there is no cost involved in transferring them to Malaya as needed. Two of the reasons which led the Bank of England to widen the spot spread are valid arguments against the suggestions that Malaya eliminate the spread entirely.

Prominent bankers in Singapore insist that the present limited fluctuations are effective in ordering the sterling market in the currency area. Despite the nature of the dollar-sterling relationship, movement of funds between Singapore and London is not the same as movement of funds between, say, Lancashire and London. People needing sterling do, these bankers claim, take notice of the exchange rates and defer if possible their purchases of sterling when the rates are against them.

If the public is influenced by the exchange rates as the bankers insist, then it follows that demand will more usually equal supply without recourse to the Commissioners under the present system than under one in which fluctuations are eliminated. This in turn means that the Commissioners are now in a position to keep a smaller portion of the Currency Fund liquid and still be able to meet the demand for sterling, but how much the change in scheme would affect this, it is impossible to calculate. There is one 'advantage' to a change of system which illustrates another fallacy: if all the reserves of Malaya were held by private citizens, companies, and banks in the United Kingdom, the sterling investments of the Currency Fund would show a decrease, and some might be tempted to claim that Malaya was no longer being forced by Government regulations to invest her hard-earned funds in well-developed Britain!

[1]S. I. Katz, 'Exchange Flexibility and the Stability of Sterling', *The American Economic Review*, XLIV (March, 1954), pp. 94–103. The quotation is from pp. 100–101.

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Mr. Tan Chin Tuan of the Oversea-Chinese Banking Corporation brought forward one further argument against elimination of the exchange spread. If foreign merchants could obtain sterling in Singapore only at the rate of 2/4 + ⅛ (or whatever commission was decided upon), an advantage in financing trade through Singapore would be lost, since the foreign merchant would have no reason for not financing directly through London.

The weight of evidence is against elimination of the present currency spread, although there is no reason why dealings with the Board of Currency Commissioners might not be restricted to banking institutions.

Before leaving this subject of the fixed versus variable exchange rate, there is one further aspect that deserves attention. Should a participating Government be able to purchase dollars or sterling from the Commissioners without payment of the ⅛*d.* commission? From the purely financial point of view the answer would be in the negative, since it is by paying the commission that the costs are apportioned correctly among the participating governments. But there is another aspect. When the sterling transfer is effected through the Commissioners the nominal or gross currency supply of Malaya changes; when through the banks, it does not. The full implications of this will be examined in the following chapter.

While the commission is not a matter of financial concern to the participating Governments, it is of concern to the United Kingdom Government, which finds itself carrying an exchange loss, for example, when the buying rate is more than 2/4 for the Malayan dollar. The armed services particularly have to transfer large sums, and they feel that there is 'something wrong' about the exchange loss they have to pay. Unfortunately, the issue is obscured by the term 'exchange loss', since the United Kingdom Government is really paying a commission for services rendered if it is dealing with the Commissioners; if it is dealing with the banks, the Government has been fortunate to find someone willing to sell at a cheaper rate and so lower the cost of the transfer. There is no reason why the participating governments should bear the expenses of such a transfer.

Internal transfers. In most of the previous discussions, it has been assumed that dealings were being carried out in Singapore, but credits and currency notes are required throughout the Malayan Currency Area. The subject of this section is the mechanism by which transfers of funds from one part of the area to another is carried out.

The Board of the Commissioners of the Currency have their main office in Singapore, and their rates of commission are based upon dollars bought and sold in Singapore only. Since, however, the Commissioners will transfer credits from one office to another without commission, the currency spread quoted in Singapore is effective, when dealing with the Commissioners, at any one of their offices throughout the area. Internal transfer of funds is effected by the Commissioners only with regard to the minimum amounts cited in the currency regulations, i.e. $100,000.

The banks do not transfer funds from one part of the area to another except for a commission. The size of this commission on transfer from Singapore varies from par for T.T. to Changi—a town on the island of Singapore—to ½% on T.T. transfers to Kota Bahru, Sandakan, and outposts in Borneo, and these rates were set by the Malayan Exchange Banks Association.

A person in Jesselton wishing to buy sterling will find that the bank's selling rate there will not be the same as in Singapore; it will always be higher, but will not

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be more than the applicable Singapore rate plus the internal T.T. transfer charge, since, if it were, it would be possible for the person to transfer his funds to Singapore and buy sterling there. The sterling rate in any place other than Singapore will be related to the Singapore rate only at the limits. The sterling rate at any centre where the Commissioners have an office will also fall within the spread 2/3⅞ and 2/4⅛ plus 1/32nd on either end in the same way as the banks in Singapore, but outstations may find the cost of buying or selling sterling even greater when the cost of the internal T.T. to the nearest centre with a Currency Office is added. Since some bank branches are separate units, they have a sterling position to maintain, and they will, within the limits described, offer a rate which is independent of other independent branches of the same bank, but related by the fact that all deal, from time to time, on the Singapore market.[1]

The present arrangements make it possible for a bank outside Singapore to make a T.T. from Singapore to the nearest Currency Office free of charge at the same time the bank is charging full transfer rates on T.T. Thus a bank in, say, Kuching, could sell T.T. on its account in Singapore replenishing that account with T.T. which has been made at the expense of the Commissioners of the Currency. It was for this reason that at one of the Board meetings it was suggested the Commissioners should charge for internal T.T. It should be noted that, although the Commissioners deal with customers on a T.T. basis, they are only able to provide these transfer facilities because at one time or another they actually undertake the movement of the physical notes with all the attendant expenses.

Funds can also be moved by the buying and selling of merchant bills. An illustration from Sarawak will serve. In the Rajang River area, despite the presence of two banks, there is a tendency to transfer funds through the agency of the *pheo* (hui-p'iao), a clean bill of exchange drawn by exporters on their Singapore agent. This bill is sold to or discounted by an importer who uses it in Singapore in payment of imports into Sarawak.[2] These transactions are highly competitive and the rates are determined by the credit standing of the exporter and the time of the transaction in relation to the harvest of seasonal crops.

It would seem on the balance that, since the banks do and must charge a commission on internal T.T., the Board of the Commissioners might do so, providing the rate is sufficiently moderate so that the bank's rate to the public will not be appreciably raised.

The External Relations of the Malayan Currency Area

Malaya and British Borneo in common with all British territories except Canada are members of the Sterling Area and, as such, subject to the controls of that area. Since both Singapore and Penang had considerable entrepot trade before the war, the effect of exchange controls is a subject well within the scope of this study.

The role of Singapore and Penang as entrepots is governed by their position on the trade routes of the Far East and their status as free trade areas. Their role is limited by the exchange and trade restrictions placed on trade either by the governments of Malaya or by the Governments of the various states and colonies of South-east Asia. The countries of the Malayan Currency Area use both Singapore

[1]Specifically all Hongkong and Shanghai Bank branches are sub-offices to Singapore; the Chartered Bank has four independent units—Singapore, Penang, Kuala Lumpur and Ipoh, but Singapore controls exchange policy.

[2]The *pheo* is written in Chinese, and a translation of the inscription is as follows: 'On demand pay to the order of the sum of ..... dollars on presentation of this bill to Messrs. ....., Singapore'.

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and Penang as entrepots, but mainly the former. The bulk of the trade of British Borneo passes through Singapore, since direct exports to other destinations are practically limited to timber exports to Australia and Hong Kong. Few freighters calling at Borneo ports continue directly to the United Kingdom or other European areas.[1] This portion of the entrepot trade is not hindered in any way by the exchange controls.

The Federation of Malaya exports some 40% of its total exports through the entrepot of Singapore and imports nearly the same percentage of its total imports.[2]

The real problem in a controlled world economy is the maintenance of trade with countries outside the monetary area. Penang's entrepot trade is with Thailand, Burma, and Sumatra. The value of this trade, which was $70,000,000/- in 1938, rose to $332,000,000/- in 1951 during the rubber boom and then began falling in 1952. Typical of the controls which hinder this trade was the abolition by the Indonesian Government of the barter arrangements by which trade with Sumatra had been carried out, by the imposition of import duties ranging from 100% to 200% on non-essentials and luxuries, and by an increase in the export duties on Indonesian exports of rubber and copra.

The entrepot trade of Singapore is mainly concerned, once British territories are excluded, with Indonesia. Mention must be made, however, of trade with the Riau Archipelago. Although these islands are under Indonesian sovereignty, they cannot help but be included in the Free Trade Area of the Colony of Singapore, and Malayan currency notes are legal tender there. Trade with Indonesia is rendered complicated by the sudden exchange crises to which it is subjected, with the resulting sudden spurts of orders from Indonesian importers when exchange is released again. Their importers so fear that another exchange crisis will overtake them before their imports can be effected, that they order from the nearest sources of supply, to the great benefit of the growing industries of Hong Kong and Singapore and of the entrepot trade of the latter.

The value of trade with Indonesia amounted in 1952 to $401,503,290/- exported from Singapore and $796,421,662/- imported into Singapore, this latter figure including $287,973,824/- of petroleum products. The value of this trade is greatly affected by any change in the price of rubber, but stringent and varying Indonesian exchange and import controls, combined with a desire on the part of the Indonesian Government to trade directly with the producing nation and avoid the 'middleman's profit'—a growing desire in the international trade of the Far East which affects the Hong Kong–China trade—do not lessen the difficulties.

Singapore exchange control is designed to allow a maximum of entrepot trade without loss of U.S. dollars to the Sterling Area. Indonesia, exceptionally, is provided U.S. dollars by inter-government agreement to encourage the entrepot rubber trade. In 1955 the amount of dollars to be allocated to Indonesia was under review. Imports from the U.S. dollar area are strictly controlled, and, as sources of supply opened in the Sterling Area, the categories of essential commodities for which U.S. dollar exchange could be obtained was made smaller. In 1952, for example, the Government ceased issuing hard currency licences for motor vehicles, roofing felt, crown corks, rubber hose and belting, and numerous chemicals. Total licences confirmed for direct dollar imports into Singapore in the first half of 1955 amounted to $47 million as compared with $44,000,000/- for the whole of 1952.

[1]This pattern is changing, however. For example, North Borneo exported more rubber to Hong Kong than to Singapore in 1955.

[2]Statistics for this section are taken from the relevant colonial annual reports.

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Exports to the United States for the first half of 1955 totalled $419 million from Malaya. Malaya is the great U.S. dollar earner of the Sterling Area.

Foreign exchange control in the Federation and British Borneo parallels that in Singapore, with concessions in the Federation for the Penang entrepot trade. The *Annual Report* of the Federation for 1952 lists two additional foreign exchange statistics: the remittances of Malayan Chinese to their families in China totalled $13,382,000/–, and travel exchange facilities to Mecca pilgrims amounted to £603,591/–/–.[1] Raw materials count for 82% of the Federations' total exports for 1952, including exports to Singapore. Rubber and tin constitute by far the most important items. Thus, in summary, Malaya continues to export raw materials and import about 40% Class I items—grain, food, tobacco, and liquor—and 49·3% Class III items—finished products and manufactures. Malaya's balance of trade July, 1954–June, 1955 was favourable for the first time since 1952. The independence of Indo-China has resulted in increased entrepot trade with that area, and the recent trade and goodwill exchanges between the governments of Singapore, the Federation and other countries in South-east Asia promises well for economic co-operation and trade.

There are three great entrepot ports in the Far East—Hong Kong, Singapore, and Penang. The exchange control officials in Malaya state on the basis of the above description and statistics that exchange control, properly administered, is not incompatible with entrepot trade. The cargo handled in Singapore during 1954 was, after all, 14,497,000 tons.[2]

The Hong Kong Government is, on the other hand, certain that exchange controls, enforced with the rigour the Singapore law demands, would destroy the entrepot trade of the colony. There is some question as to whether or not they could be enforced, for while there is a black market in the Colony of Singapore, it is reported to be limited in scope, and large scale evaders of currency regulations there have been apprehended. Macao might offer certain advantages to the Hong Kong Chinese small banker and merchant that have no parallel in Singapore. There are other difficulties. The greatest part of Singapore's trade is with countries within the Sterling Area, though this is not to underestimate the importance of that Colony's non-Sterling Area trade. The entrepot facilities which Singapore and Penang provide would be used to some extent were all trade outside the Sterling Area eliminated. This is not the case in Hong Kong. Hong Kong is solely an entrepot port with no hinterland under her political control. Her merchants have no stake in the Sterling Area, and unless the earnings of these merchants are freely dispensable, trade could easily bypass the Colony. The greater portion of the trade of Singapore and Penang could not conveniently bypass these ports.

There is more at stake in the Malayan entrepots. Behind them is the largest U.S. dollar earner in the Sterling Area, and they deal with non-sterling area countries in the dollar-earning commodity, rubber. Hong Kong's industries are still growing, but they do not promise to provide great quantities of hard currency for the Sterling Area. The conclusion: Hong Kong must have an open market in which U.S. dollars earned from exports originating in Hong Kong, Macao, China, Taiwan, and the Republic of Korea can be sold at open market rates and in which imports from the dollar area can be financed. The further conclusion is that there cannot be such an open market in the Malayan Currency Area.

[1]Remittances to China include direct remittances, but other funds are sent to Hong Kong for remittance to China in Hong Kong dollars.

[2]*Annual Report*, 1954, p. 166.

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Hong Kong is not, however, the only member of the Sterling Area to profit from this open market. Many of the non-essential dollar area imports of the Malayan Currency Area are imported from the Colony having been financed on the open market there.[1] Licences for such imports are given on the understanding that the funds shall be paid to a Hong Kong bank in some Sterling Area currency and that the funds will not go farther. Bills of lading have to show the U.S. dollar area goods as having been sent from Hong Kong and the bills of lading must be issued in that Colony. This is how such a transaction takes place.

The Singapore trader obtains Singapore exchange control permission to import a specific item which happens to be a product of the U.S. dollar area from Hong Kong. The importer transfers Malayan assets to Hong Kong—a Sterling Area transfer—and pays his Hong Kong dealer in Hong Kong dollars. The Hong Kong merchant has imported the dollar-area goods with U.S. dollars purchased on the open market; in effect, therefore, the Singapore merchant has transferred his assets to a place where he could buy U.S. dollars freely and, therefore, U.S. goods—even though, in fact, the U.S. dollars are handled by some resident of Hong Kong.

There are two controls on these transactions. The first is the control on the actual import of the goods into the Malayan Currency Area, the second is on the sterling transfer to Hong Kong. The first is a Singapore-operated control; the second, Hong Kong. Hong Kong would not permit a volume of transactions of sufficient value to seriously affect the open market rate of exchange; this is the main limitation.[2]

The Singapore importer has imported U.S. dollar-area goods from Hong Kong by what amounts to transferring his claim on sterling to his Hong Kong agent, whether or not there has been at the same time a net decrease in the sterling claims of Malayan Currency Area residents will depend upon the demand for Malayan dollars at the current rate of exchange. In any case, it is important to understand that the U.S. dollar reserves of the Sterling Area are left intact by these transactions, since the U.S. dollars bought on the Hong Kong open market to finance the import into the Sterling Area of the U.S. dollar-area goods did not originate in the Sterling Area—unless the U.S. dollars were earned as a result of an export of a Hong Kong manufacture. It is, of course, fallacious to argue that this is a painless way to finance all dollar-area imports, since the open market exchange rate would soon turn against sterling under such conditions. Care must also be taken that non-Sterling Area countries do not try to obtain U.S. dollars through Singapore and the Hong Kong open market, in fact attempts at such transactions have been detected and checked by the Singapore authorities.

The majority of the entrepot trade is financed in Malayan dollars although certain trade with Thailand has to be handled through a United Kingdom intermediary. What then is the relation of the Malayan dollar to foreign currencies?

Under present Sterling Area restrictions, residents of the Malayan Currency Area do not hold foreign currencies except for the purpose of current trade financing. Banks may maintain a position in United States dollars within limits permitted by the Exchange Control authorities. Otherwise all foreign exchange is

[1]In the first half of 1955, imports of dollar-area goods imported from Hong Kong and financed there on the open market totalled $42 million—compared with $47 million paid for by Singapore in U.S. dollars.

[2]British Borneo territories are prohibited from taking advantage of these arrangements directly but are forced to buy the U.S. area goods from Singapore. This adds significantly to their cost at the expense of the Borneo territories. The reason for this procedure is obscure and much resented.

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bought through the London market and the foreign exchange reserves of the Malayan area depend upon the area's relation with the United Kingdom. This does not mean, however, that there is no demand for the Malayan dollar as a demand separate and distinct from the demand for sterling in the international currency markets. As Mr. Tan pointed out, a par relationship between the dollar and sterling would indeed mean that the demand for one currency was identical with a demand for the other, but, in fact, the rate at which dollars can be purchased with sterling varies according to the supply of and demand for sterling on the Singapore inter-bank market.

An attempt has been made to differentiate between a currency on the sterling-exchange standard and one on a colonial 'currency board' standard on the basis of whether or not a central bank kept the foreign exchange reserves.

> "Under an independent sterling exchange standard the total sterling reserves of the country are held by its Central Bank, and when a payment is made from them that amount of foreign exchange disappears from the country's monetary system.[1]

The distinction does not seem quite valid. Under the 'independent sterling-exchange standard', if the sterling is acquired by a resident of the country, then that sterling remains an asset of that country, and the resident can use the sterling to import goods, make payments for services, investment, or even return it to the Central Bank for exchange back into local currency. This is precisely the situation with respect to the colonial currency board system. In neither case does the action of the monetary authorities in releasing sterling result automatically in that sterling being lost to the area.

A sterling-exchange standard can be defined simply as a system in which the value of a currency is maintained in terms of sterling, a policy which will require the monetary authority to maintain sterling reserves. Within the larger term 'sterling-exchange standard', there may be several further classifications. The currency on the sterling-exchange standard may simply be a pure substitution currency, e.g., the military script issued by the British War Office in Korea (though restrictions on its substitution and the use of ordinary sterling gave it an independent value on Korean black markets), another category into which the Malayan currency falls is a sterling-exchange currency of the 100% reserve-automatic type, but having a demand and status in its own right.

Chapter 3

THE MALAYAN CURRENCY AREA TODAY

Part B: An Analysis

The Monetary Equation

The amount of money in an economy can be found directly or by calculating the size of the determinants of that money supply. The determinants are discovered through the formation of a monetary equation. The monetary equation is nothing but the summation of the monetary equations of all institutions responsible for

[1] I. Greaves, *Colonial Monetary Conditions* (London: H.M.S.O., 1953), p. 66.

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contributing to the money supply—in the Malayan currency area, the commercial banks and the Board of Commissioners of the Currency.[1]

It is obvious that:

(i) assets — liabilities + net worth

and that for a bank:

(ii) cash assets + earning assets = monetary liabilities + non-monetary liabilities + net worth (or capital account)

(iii) ML = CA + EA — (NML + NW)

and filling in this equation:

(iv) current accounts + bank drafts, etc. = Malayan currency notes and coin in hand + domestic inter-bank accounts + accounts with United Kingdom banks in sterling + accounts with foreign banks + sterling investments + other loans and investments — (deposit accounts + domestic inter-bank accounts + banknotes + capital account or net worth).

There are several comments to be made on this equation. First, the most important monetary liability of the commercial banks in the Malayan Currency Area are the current accounts of the public, the Governments, and foreign banks, since banknotes are no longer money.[2] The banknotes are entered as a non-monetary liability since they are no longer current or legal tender. The divisions of the balance sheet are not those usually found on an official bank balance sheet; they have been made to meet the purposes of this study. The categories are general; for example, no mention is made of 'money on call or short notice'. If a bank has such assets, they can be included under 'sterling investments' or 'other loans and investments' as the case may be.

Bank drafts, cashier's cheques, certified cheques are all part of the money supply, since they have a fixed value in terms of the unit of account, but, unlike ordinary cheques, do not simply represent an unaccepted debt. These special 'officers' cheques' are written only after the assets of the bank have been changed accordingly or until the form of the bank's liabilities have been changed. Items in process of collection are double-counted unless their amount is published separately, and for strict accuracy, personal and government cheques in the process of collection should be so deducted from the monetary liabilities of the banking system.

Domestic inter-bank deposits are not included in the monetary liabilities since they are mutually cancelling debts of the banking community. In calculating the money supply, only the summation equation really gives the information required. Thus, (iv) would show the total monetary liabilities of the banking system on the one side; on the other side would be the total of all items listed in (iv). Then it would be seen that domestic inter-bank deposits cancelled out.

The monetary equation for the Currency Fund's contribution to the money supply based upon (iii) above would be as follows:

(v) currency notes and coin (less those in the banks) = a house in Penang + accounts with United Kingdom banks in sterling + sterling investments

[1]The analysis in this chapter depends upon Edward S. Shaw, *Money, Income and Monetary Policy* (Chicago: Richard D. Irwin, Inc., 1950).

[2]'Foreign' means 'outside the Malayan Currency Area', and 'domestic' means 'within that area'.

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+ silver — (outstanding pre-invasion notes not written off[1] + excess of assets over liabilities account or net worth + currency notes and coin in the commercial banks).

The monetary liabilities of the Currency Fund are those notes and coin in the hands of the non-banking public including the various government treasuries. The notes and coin not in the hands of the non-banking public, that is, the notes and coin in the hands of the bank, are a non-monetary liability of the Currency Fund. They do not become money until they have been issued from those institutions which are responsible for the money supply of the area.

The house in Penang is rather an unusual item for a monetary equation, but it is a determinant of the size of the monetary liabilities of the Currency Fund.[2] In the section which discusses the subject of changes in the money supply, it will be seen that this is an item not itself subject to much change. No one as yet has suggested a variable monetary policy which includes the buying and selling of houses, either in Penang or elsewhere. For theoretical neatness the Commissioners might have rented the house, and then it could have been taken care of as an expenditure from the income account—but they didn't.

The money supply of Malayan Currency Area may be found by adding (iv) + (v) to give (vi).

(vi) the money supply = a house in Penang + sterling + sterling securities + other loans and investments + silver + other accounts with foreign banks — (deposit accounts + banknotes and outstanding pre-invasion currency notes not written off + net worth of all banks and the Currency Fund).

There is no need to emphasise how important it is for economists and officials concerned with the economy of any country to know the size of the money supply at any given time. From equation (vi) it is possible to calculate that money supply providing the statistics are available.

The money supply consists of notes and coin not in the hands of the non-banking public plus current accounts (except domestic inter-bank) plus officers' cheques. In order to discover the money supply directly, these statistics would have to be available. The Commissioners of the Currency publish the nominal or gross circulation of coin and notes under the provisions of the Currency Agreement, 1950. This figure includes currency notes and coin in government treasuries and with the banks. In addition to these required figures, the Board also publishes 'active circulation', that is, nominal circulation less notes in the hands of the banks and treasuries (but not coin). Neither of these figures is the one required. Before 1948 the Board published 'net' circulation figures, i.e. notes in the hands of the public and the bank but not in the treasuries. With this figure it was possible to discover the treasury holdings and add these to the active circulation to discover the monetary liabilities of the Currency Fund.

In some countries, the United States for example, the Treasury does actually issue some of the legal tender money. In such cases accounts for the purpose of the monetary equation are drawn up in two parts—the monetary and fiscal operations of the Treasury are separated. Notes and coin in the monetary account are not considered part of the money supply; those in the fiscal account are. In Malaya the

[1]'Outstanding pre-invasion notes not written off' is referred to in the Currency Fund Account as 'Reserve to cover redemption of pre-invasion notes'. The change in terminology has been made here to avoid confusion of the two meanings of the term 'reserved' and to parallel the 'banknotes' item in equation (iv).

[2]The house is, of course, a 'fixed asset', an item common on the books of banks but unusual on those of a currency reserve account.

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treasuries have no monetary functions, and therefore any cash they may have in hand is part of the money supply. Although treasury holdings are no longer published in the Commissioners' annual reports, the figure is available in the statistical bulletin of the participating governments. In stating that currency notes and coin with the treasuries are included in the money supply, reference is made only to those notes and coin legally issued by the Commissioners, that is, those items which are included in the gross circulation. Obviously, if the treasuries are acting on behalf of the Commissioners and as their agents, then the treasuries are performing monetary functions—but not in their own name. Many of the part-time employees of the Board of Commissioners are regularly employed by the treasuries in the various parts of the Malayan currency area.

Unlike Hong Kong, where banking statistics remain the secret of the banks, those in Malaya are reasonably complete.[1] It is possible to obtain figures for current accounts but not for 'officers' cheques, which seem to be listed under 'other liabilities' for example, in the Federation's *Statistical Bulletin*. This is not, however, an important item and like items in process of collection will be disregarded.

It is then possible to calculate directly the money supply of the area with reasonable accuracy. From the other side of the equation, the process is more complicated, and banking statistics are inadequate to supply the information required. The banks are not required to publish information on their Malayan operations, but only for the bank as a whole. It is, therefore, impossible to assign the right quantity to non-monetary liabilities without knowing the monetary liabilities, that is, without begging the question.

Changes in the Money Supply

Changes in the money supply must be brought about by a change in one or more of the determinants of the money supply. Some of the changes in these determinants may simply be offsetting changes, for example, the case in which the Currency Fund buys sterling securities with other sterling assets. Or there might be a net change in the preference of the banks for holding sterling rather than currency notes, in which case currency notes are sold to the Commissioners and the sterling of the Currency Fund is transferred to the sterling account of the banks. While this type of change is not without significance—especially the latter example —in the study of the Malayan monetary system, interest in this section will be focused on those changes in the determinants which result in some net change in the money supply.

Changes in sterling reserves. Dealings with the Currency Fund do not immediately react on the *money* supply, since, in nearly all cases, the customers of the Fund are banks and their dollar notes go from or to 'cash in hand', The notes are, in other words, non-monetary liabilities of the Currency Fund. It is essential to realize that the location of the banks' assets does not in itself affect the size of the money supply. Only to the extent that a government or some large mercantile establishment deals with the Commissioners do dollar-sterling transfers affect the money supply of the Malayan Currency Area. This may seem at variance with some of the literature on colonial currencies, but the difference arises, not from misunderstandings, but from different definitions of 'money supply'. It is, of course, true that the nominal note circulation is affected, but this has no *direct* economic significance.

[1]British Borneo territories do not publish banking statistics because such publication would reveal the position of a competitor. However, for the purposes of this study, the governments and banks concerned co-operated in the compilation of a *total* figure for current accounts for all the Borneo territories, thus allowing for the first time, a complete figure for the money supply.

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It is expensive to deal with the Commissioners, however, and the banks do not undertake to make a dollar-sterling transfer through them unless there is some need. The bank may have undertaken to buy dollars at the request of customers and found that there were not sufficient available at a reasonable price in the inter-bank sterling market for sale against sterling, and, desiring to maintain its cash reserves in Malaya at some given level, the bank would then have to deal with the Commissioners. The merchants' exchange rate would be above 2/4⅛ under such circumstances.

To make the situation more realistic, suppose that certain firms have seasonal purchases to make in Malaya and that they do not keep sufficient funds in the area to effect these purchases. They request their correspondent in London to transfer funds for deposit in the firm's current account with a bank in Singapore. Assume that so great is the general demand for dollars that recourse to the Commissioners has been decided upon by the banks. Sterling is transferred into a bank's London account from the firm's account in the United Kingdom. The Malayan bank sells T.T. against this sterling in favour of the Crown Agents acting for the Commissioners. The Commissioners deliver the equivalent sum—less commission—to the bank, and the bank credits the current account of the firm the dollar equivalent of the firm's sterling deposit at the merchant's selling rate for sterling—the balance is for the bank's credit.

The effect on the monetary equations of such a series of transactions would be as follows: the sterling balances of the Currency Fund would be increased; the non-monetary liabilities of the Fund would be increased; the cash in hand, i.e. currency notes, of the bank in Singapore would be increased; and the current accounts of the bank would be increased. It is this last item which registers the change in the money supply. Of course, if no recourse had to be made to the Commissioners, if the dollars could be bought in the inter-bank market against sterling, only the ownership of the items in the monetary equation might be changed.

Seasonal purchases are not, however, an important characteristic of the Malayan economy, or for that matter, the economy of British Borneo. Neither rubber nor tin are seasonal, although it is true that rubber trees are more productive at certain times of the year. The oil of Brunei is not seasonal, nor is the timber of North Borneo and Sarawak seasonal to the usual extent. There are seasonal crops, of course, as was seen from the *pheos* of Sarawak, but they do not have to be financed by net movements of funds from London.[1]

Net movements of currency into Malaya seem to occur when there is sizeable increase in the price of either rubber or tin, especially the former. The export surplus of the Federation, for example, had been rising slowly since the middle of 1949, but from May to November, 1950 the monthly net export surplus increased some $5,000,000. The price of tin and rubber had increased, and there was need for more dollars to pay for them. The first reaction to this price rise was an increase in the ratio of 'active' to 'gross' note circulation figures, indicating that dollar credits were being sold to exporters of tin and rubber from inter-bank sources, and that these credits, though originally in the form of current accounts, were being spent in cash in payment for primary products and allied expenditures.

[1]In Sarawak unusually high prices for the reviving pepper industry and for illipenuts led to a drain of currency from the small Chinese banks which normally finance the trade. They sought and obtained accommodation from the Chartered Bank in Kuching. This sudden demand for cash was unusual in as much as Chinese banks advance funds to producers, lessening the volume of payments which have to be made at the harvest.

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There was first, then, a change in the nature of the monetary liabilities from current accounts to currency notes, accompanied by an increase in the velocity of circulation. Some exporters who already had current accounts must also have drawn on them for cash, changing the composition of the money supply.

Within a month, however, recourse had to be made by the banks to the Commissioners, and there was a net increase in the gross note circulation.[1] At the same time there was a net increase in the monetary liabilities of the Currency Fund (gross — net + active circulation) and an increase in the current accounts of banks. The Commissioners' report for 1950 states:

> "The outstanding feature of the year's events was the unprecedented expansion of the currency note circulation which, since 1946, had remained almost stationary at around $400 million . . . By May, 1950 the rapidly-increasing prices of local commodities, notably rubber, began to be reflected in the note circulation and, by the close of the year, the gross circulation of currency had increased by $235.85 million, equivalent to 54 per cent. over the corresponding figure at the close of 1949 . . . the note issue expansion during 1950 was without precedent in volume in the entire history of Malayan currency . . .

The comments made on the gross circulation are roughly true of the Fund's monetary liabilities. This process could be better seen if the Commissioners continued to publish figures of sales and purchases of T.T. by the month. It is possible to tell the total volume of business and, obviously, the net effect of the sales and purchases, but a monthly study might reveal more detailed correlations.

The monetary liabilities of the Currency Fund react quickly to changes in the price of rubber because of the nature of the wage agreements current in the industry.[2] The procedure for a field worker's wage will provide an excellent example. A cost of living index is calculated for Indian and for Chinese labourers. The arithmetic mean of these two indices is taken, so that the resulting figure is meaningless but unemotional. A scale has been established applicable to each index range, and the appropriate cost of living allowance is then added to the basic wage. In addition to this there is a 'prosperity factor', which depends upon the average price per pound of No. 1 RSS, noon, buyers' FOB in bales, Singapore.[3] Some other workers in the industry also receive a bonus. There is little difficulty in seeing how the prosperity factor immediately increases the wage bill in the rubber industry, how this affects the cost of living, and how this results in still higher take-home pay the following month. Since these workers most probably do not have bank accounts, the monetary liabilities of the Currency Fund must increase.

The financing of primary production, the cost of which has risen, or the purchasing of primary products, the cost of which has risen, are not the only ways in which the money supply of the Malayan area may be increased by increasing the sterling assets of either the Currency Fund or the banking system. Grants from the United Kingdom Government for development or defence, payment of troops, capital investments may all have the same effect as that described above—only, of course, to a much lesser extent. Whether such grants or transfers effect the money

[1]The Commissioners buying rate was 2/4 3/16; the best merchant TT rates were 2/4 3/32 selling, 2/4 7/32 buying. The interbank rate varied between 2/4 11/64 and 2/4 3/16.

[2]These were modified in September, 1955, but the general effect on the economy is as before.

[3]The Rubber Producers' Council of the Federation of Malaya, *Monthly Statistical Bulletin*, I (October, 1952), pp. 23–26. The system has since changed in detail.

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supply depends of course of the state of the inter-bank market at the time, i.e. on all the other factors which effect the demand and supply of a currency.

Changes in loans and investments. The most positive or active cause of a change in the money supply is a change in the item 'loans and investments' in the monetary equation. The loan policy of the banks in the Malayan Currency Area is, therefore, of primary importance.

The British Exchange Banks have been criticized from time to time for not investing sufficiently in the area which they serve, but this criticism is to some extent a misunderstanding of the role these banks are able to play in the Eastern economies. At their inception, the primary functions of the exchange banks were to provide facilities for exchange—remittances, drafts, and transfers—and the financing of physical trade. They are not equipped to make heavy long-term investments in the Malayan Currency Area. The attitude of the Chartered Bank, for example, is illustrated in this quotation from their 'house' history:

> "The Chartered Bank throughout its fruitful history has been the *channel* for the investment of foreign funds in the East . . ."[1]

As a second example, one of the main tasks of economic rehabilitation remaining to be undertaken in Malaya is rubber tree replanting. One Singapore exchange banker expressed himself quite definitely on the subject. "Such long-term investment", he said, "is for the shareholders of the rubber estates. It is not the Bank's job".[2]

The exchange banks make advances on commodities at or about the same rates as prevail in London, otherwise, of course, the financing would be done in London. Bills sold to banks by exporters at usances of from 15 to 120 days' sight are purchased by banks at a rate of exchange based on the T.T. rate plus an interest calculation made at the prevailing London discount rate, not at the local overdraft rate, which is, of course, higher. These banks provide the link between Malaya and the London Money Market, and it is their function to bring to this 'undeveloped' area the advantages of a developed money and credit system.

The Governor of Singapore was eulogizing the Chartered Bank when he spoke, but he provided a useful summary of the exchange bank's activities in the area:

> "Founded primarily to foster international commerce the exchange banks have helped to establish and expand the great Eastern industries . . . and not the least of their service has been their assistance in the institution of stable currency conditions in the territories they continue to serve so well . . .
>
> More recently the exchange banks have rendered important services to the country in the underwriting, issue and service of government and municipal loans. Finally, I feel that we must all acknowledge the indispensable services performed by these banks in assisting the economic rehabilitation of Singapore and the Federation after the devastation of the Second World War . . ."[3]

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[1]Mackenzie, *Op. Cit.*, p. 315 (italics supplied).

[2]It has turned out to be the task of the Government, for, since mid-1955 funds for replanting have been made available from general revenue.

[3]Quoted in *Ibid*, p. 309. For a short article on the exchange banks see 'British Banks in the East', an article in 'A Survey of International Banking' pp. 20–23, which formed part of the *Economist*, CLXXIII (November 20th, 1954).

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There is no question but what the Chartered Bank, the Hongkong & Shanghai Bank, and other exchange banks in the Far East have participated in some long-term investment and even in some 'public-spirited' investment, as some of the loans to China in the last century will bear witness. The political instability of the East today, the uncertainty of economic policies of new or coming governments make such long-term investment on the scale necessary for the full development of the country impossible if the banks wish to remain sound institutions.

The governments and the banks have reached an understanding on the floating of government dollar borrowing which so far has proved satisfactory. Whether the investment activities of the banks and the nature of the banking system is adequate and suited to a developing Malaya is a subject for the following chapter. Here it is sufficient to observe that the banks, following the pattern described above, do affect the money supply by their loan and investment policy. The description given earlier of how a firm or agency house might finance its purchases of primary products in a rising market is also applicable to the banks. To the extent they finance the movement of commodities, they have the same effect on the money supply as the action of the agency houses.[1] A bank will have some dollar reserves. In making an advance on commodities the money supply increases, either through an increase in current accounts, through an increase in notes in the hands of the non-banking public or both. If the bank considers its dollar reserves adequate after it has made the loan, it will not attempt to sell sterling to the Comissioners or on the inter-bank market. Whether it does or not has no effect on the money supply—that has already been increased by the original advance and will not be increased twice for the same transaction. While the location of reserves are of considerable importance to the bank as a business institution, they are not of immediate concern to the economist in this study of changes in the money supply. Dr. Greaves summarizes a conversation with a West Indian banker as follows—and Malayan bankers would undoubtedly agree:

> "In deciding to make or refuse a loan they were not influenced by the question of whether the borrower would draw it out by internal cheque or by external draft. In practice, therefore, the volume of funds they held abroad was not a factor in determining the extent of local credit.[2]

Further developments. The increase in prices of Malayan exports cannot but increase the net foreign investment of the currency area. Since this has an expansionary effect on the national income (MV^y) of the area, the amount of money, both bank and legal tender money, will increase to an extent which depends upon the changes which occur in the income velocity of circulation. The national income will increase by some multiple of the net increase in exports to an extent which will depend upon the marginal propensity of the people in the Malayan Currency Area to import, and their marginal propensity to save. The reciprocal of the sum of the two marginal propensities will give the multiplier—assuming no change is brought about in the rest of the world by the changes in Malaya's net foreign investment—and the increase in the national income will then be found by multiplying the increase in net foreign investment by the multiplier.

Because of the increase in national income there will have been an increase in saving and an increase in imports. The increase in imports will cut down the increase in net foreign investment until it is equal to the saving induced by the

[1]Agency houses do not usually tie up their funds in the financing of primary production and its marketing. This is, generally speaking, the function of the exchange banks.

[2]Greaves, *Op. Cit.*, p. 46.

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rise in national income. This saving means that the sterling balances of the Malayan Currency Area must have increased, just as, in countries with autonomous currency systems, it would have meant a net increase in the holdings of foreign balances or gold.

If the income velocity of circulation remains unchanged, this rise in the national income will mean an increase in the money supply. The previous section has shown how the intitial increase in the money supply may come about. The money supply may, however, continue to increase as banks finance the expanding economy by increasing their advances, their loans, and their investments.

The expansion of the banks' current accounts was accompanied by a less than proportionate increase in the banks' Malayan dollar reserves. The increase in the money supply could, then, be explained in terms of the monetary equation as follows: an increase in domestic loans and advances will increase the earning assets determinant. If the banks wish to maintain a certain reserve in Malayan dollars, or to the extent they wish to do so, sterling will be sold to the Crown Agents for dollars. This transaction will not, as already explained, affect the money supply, and it will not affect the net sterling reserves of the monetary area. If the bank does not have sufficient sterling for adequate reserves, it can borrow on the London money market. While this will increase the sterling reserves of the Colony, it will not in itself affect the money supply, since the rise in cash assets is offset by an increase in the banks' non-monetary liabilities.

A part of the increase in the money supply has occurred by the transfer of funds without recourse to the Commissioners, that is, by allowing the percentage dollar reserves against current accounts to fall and by allowing sterling cash assets to build up. This is one way in which the increase in domestic saving is countered by the increase in net foreign investment. When the gross circulation of dollars is increased, net foreign investment is unchanged since the sterling assets are merely transferred from the banks to the Commissioners' agents in London.

Therefore, while it is true to say that an export surplus may, other things being equal, be financed by a growth in the areas' sterling balances, the increase in that portion of the money supply which is legal tender is almost never the result of such an increase, but rather the result of the public's preference for legal tender as opposed to current accounts or bank money. Nor is it true to say that an increase in sterling balances always represents an investment by the area in the United Kingdom, since the sterling balances may be increased as a result of borrowing on the London money market.

Other things are not always equal. The velocity of circulation will almost certainly increase in a period of prosperity when persons with a high propensity to consume are employed with unusually high wages. There will be a limit to this, since consumption is still largely traditional, and there is a point, therefore, beyond which there will be less and less tendency to spend and a greater tendency to save—the slope of the propensity to consume will undergo a sudden change at the maximum level of consumption possible under traditional conditions. Especially where native workers come from their own small-holdings to work on estates in order to obtain money for certain specific purposes or purchases, the velocity of circulation will be affected.

The visible export surplus is not the same as net foreign investment, since, at the same time as the export surplus increased there may also have been increased investment in Malayan rubber estates, for example. This section has been an attempt to describe the mechanism, and at the same time to relate it to an historical

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occurence, but it is the mechanism which is important. The complications implied in this and the previous paragraph do not, therefore, detract from the usefulness of the preceding analysis.

Other causes. Finally, the remaining items on the right-hand side of the monetary equation must be examined. If the Commissioners stood ready to sell dollars to the public against receipt of houses, the house in Penang would be a very interesting item. As it is, it is simply the result of a change in the earning assets of the Currency Fund—in a sense, it is an investment, although the Commissioners do not list it as such on their balance sheet. Presumably further houses would be brought by expenditure of cash assets in the same way as before.

Deposit and time accounts are not considered part of the money supply but are a non-monetary liability of the banks. Any change in the relative composition of the non-banking public's cash assets as between these accounts and other forms—legal tender, current accounts—will cause a change in the money supply.

The net worth of a bank is a 'contractionary item' in the monetary equation. Payments made to the banks for services—interest, service charges on current accounts, commission on T.T.—will, therefore, cause a contraction in the money supply. Similarly, payments made from the bank to the non-banking public for services will expand the money supply, providing these payments to and from the bank are made in Malayan funds. The commission paid to the Crown Agents ($\frac{1}{8}d.$ on every dollar bought or sold) increases the net worth of the Currency Fund at the expense of the sterling accounts of the bank. This in itself does not affect the money supply, being merely a transfer from one institution responsible for the money supply to another. The net worth of the bank is drawn down and so also are its sterling balances, cancelling each other without disturbing the monetary liabilities item. The change in the money supply, if any, has already been brought about by a change in the current account of some customer of the bank who wished to transfer funds. When, however, the non-banking public deals directly with the Commissioners, the money supply will fall more because of the commission than it would have had there been no commission for any given sum of sterling desired. The dollar equivalent of the commission has been a change in the net worth of the Currency Fund offset by a decrease in the monetary liabilities of the Fund. When transferring sterling to Malaya, the non-banking public finds that the money supply does not expand as much as it would have, given the quantity of sterling surrendered, were it not for the $\frac{1}{8}d.$ commission. In both cases, net worth is a contrationary item.

Changes in the money supply—1952 and 1954. The *Annual Report* for the Colony of Singapore, 1952, describes the exchange rates as follows:

> "The year began with the Malayan dollar strong against sterling and with the Malayan Exchange Banks Association's T.T. selling and T.T. buying rates for merchants at 2/4$\frac{3}{32}$ and 2/4$\frac{7}{32}$ respectively. Following the spectacular fall in the price of rubber, there was a gradual weakening in the Malayan dollar resulting in considerable pressure being put on banks to sell sterling. The Malayan Exchange Banks Association later lowered its rates on several occasions, the last being to 2/3$\frac{15}{16}$ and 2/4$\frac{1}{16}$ for banks T.T. selling and T.T. buying, respectively, on 12th May. These rates continued unchanged throughout the rest of the year. Similar changes took place in the rates for allied currencies."[1]

[1] *Colony of Singapore, Annual Report*, 1952, p. 79. Because of the lack of Borneo banking statistics, references in this sub-section are to the Malayan situation only.

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In the Federation total exports were $2,136/2 million in 1952, compared with $3,380/7 million in 1951, a change brought about by a decline not only in the price of rubber but also in the price of tin. There was a slight fall in the cost of living, from a high of 440 (January, 1952) to a low of 410 (October, 1952) with an average of 423 (1939 = 100). Malaya's balance of payments on current account shows a deficit of $105 million, offset by a net inflow of private capital ($15 million) and official borrowing abroad ($116 million). Net receipts from abroad were, therefore, $26 million. There was an increase in official sterling balances of $86 million, and so, a decrease in the overseas assets of the banks and the currency board of $60 million.[1]

The year then began with the Malayan dollar strong against sterling, and the gross note circulation was higher in March than it had been in January, which is to be expected since the rate was then at the 'super-top', i.e. $\frac{1}{32}$ outside the rates at which the Commissioners do business with the banks or public. But by March the active note circulation had already begun to fall, so that, although the ratio of active to gross circulation was 86% in December, 1951, it was only 81% in March, 1952. This meant that the banks were holding a greater percentage of their reserves in the form of Malayan dollars than before, and eventually they could be expected to sell dollars for sterling to the Commissioners. But they did not do this immediately; in fact, there is no significant change in gross note circulation until June, 1953. This slow reaction is natural. If dollars are sold to the Commissioners and trade picks up again, the banks may find themselves facing a cash drain in Malaya, and will be forced to buy again from the Commissioners, involving a heavy exchange loss. The banks, therefore, financed the demand for sterling by drawing down their sterling reserves, and all but approximately $1 million of the $60 million decrease in overseas assets of currency board and banks is attributable to the drawing down of these sterling assets. It is only natural that the banks would only sell their sterling at increasing prices, and, as stated in the quotation above, the rate for the Malayan dollar fell between January and May, but it did not fall to a level whereby transactions with the Commissioners would have been profitable. Changes in gross currency circulation lagged behind changes in the active circulation.

During the first quarter of 1952 the total demand deposits, excluding inter-bank deposits fell more than the fall in active note circulation, which was to be expected. The money supply of Malaya fell approximately $20 million during this period. During the last quarter of the year, increases in bank loans and advances and local investments totalled some $24 million. But this does not explain the increase in the money supply of some $54 million during the same period, since the fall in the cash assets of the Singapore banks—from $109 million to $95 million—partially offset the rise in Malayan bank earning assets. The balance of payments was, therefore, again the source of a change in the money supply, although not one sufficient to affect the rate of exchange. The drain of cash from the banks illustrates why the banks must hold Malayan dollar reserves, since failure to have done so in, say, early 1952, would have forced the banks to buy dollars from the Commissioners with sterling they had received from previous sales of dollars at a lower rate.

The size of the government's holdings suggests that they can influence local monetary policy, and this will be discussed later. Obviously, if the Government had transferred the entire $116 million into Malayan dollars, the whole reserve

[1]International Bank Mission, *op. cit.*, p. 474.

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and exchange rate story would have been different. This is a traditional pattern in British economic history: in any one year heavy long-term lending is often offset by almost equal short-term borrowing; that is, borrowers cannot always use all their borrowings immediately, and the balance is left on deposit with the lender or invested temporarily in British securities.

To introduce the exchange picture in 1954, here is a summary taken from the *Annual Report* of the Colony of Singapore, 1954:

> "The rates to merchants at the close of the year 1953 of 2/3 29/32 and 2/4 1/32 continued up to 20th September, 1954, when the Malayan dollar was at par with sterling, that is to say, the Malayan Exchange Banks Association's best agreed rates to merchants were 1/16 either side of 2*s*. 4*d*. From 25th September, 1954, the rates were 2/4 selling and 2/4 buying; they were further increased to 2/4 1/32 and 2/4 5/32, respectively, on 15th December, 1954, following the rise in the prices of rubber and tin. During the month of December, 1954, the Currency Commissioners issued cash against sales of sterling resulting in an expansion of the currency circulation amounting to $42,069,333/34."[1]

The money supply of Malaya rose from an estimated $1,414 million at the end of the first quarter, 1954, to $1,439 million at the end of the fourth quarter. Demand deposits fell, and the increase in the money supply was obviously due to a net increase in active note circulation. This does not mean that demand deposits did not increase in size at any time during the year, but it indicates that the cash drain was sufficiently great to cause not only the increment in demand deposits to be taken out in cash but also for part of the old deposits to be drawn down as well. This was to be expected in view of the rising price of tin and rubber after the first quarter of the year, the price of rubber being especially important in its effect on the cash drain, since wages are so closely related to profits.

Changes in gross circulation lagged behind the changes in active circulation. For the first two quarters the ratio of active to gross was 84 per cent., but during the third quarter the active circulation increased by approximately $27 million, with gross remaining approximately the same, and the ratio became 88%. Cash continued to be withdrawn from the banks, and the exchange rates moved against sterling until it was eventually possible for the banks to deal with the Commissioners. This they did in December, 1954, in which month gross note circulation increased some $42 million.

Here is an example of the banks forcing up the price of the Malayan dollar so that they can meet the demand for cash which is bound to come from the increased supply of bank money. If demand deposits increase, the demand for cash will increase, but, if the banks have only a limited amount of cash, they will anticipate the need to sell sterling to the Commissioners. They must, therefore, sell dollars to the merchants at a rate which will allow them to buy dollar cash from the Commissioners without loss. And that rate is the 'super-top' rate, 2/4 5/32.

The price of rubber continued to rise, until, in June, 1955, it passed the 100 cents a pound level and settled at about 123 cents a pound. The exchange rate remained at the 'super-top' throughout 1955.

Credit Expansion

The ability of the money supply of a country to vary or to be varied according to the needs of its economy is surely a minimum requirement for sound economic

[1] *Colony of Singapore, Annual Report*, 1954, pp. 63–64.

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development. There is, however, a great deal of difference between the idea 'to vary' and the idea 'to be varied'. The former is certainly possible in Malaya. When funds are transferred to the Malayan Currency Area, there is an increase in the money supply.

The money supply in Malaya tends to vary according to the 'requirements of trade', an historical concept and one not suited, if considered exclusively, to any economy the activity of which does not depend on trade alone. It might well be that in a trade depression, in a time of falling rubber prices, some new industrial project or capital expenditure ought to be incurred. It is not the purpose of this section to examine such a proposition. The question here is, "To what extent can the money supply of the Malayan Currency Area be changed by positive action?"

The extension of credit by banks in any form will increase the money supply, but if the money supply can only expand with the deposit of 100% sterling cover in London, the money supply can only vary, it cannot *be* varied. This is not the case; the lengthy explanations in previous sections were all directed at establishing this fact. If the banks are required to maintain 100% reserves in dollars against their current account liabilities, they will be unable to vary the money supply. The purpose of this section is to establish the fact that under the Malayan currency system, multiple credit expansion is possible, and that the money supply can be varied.

A Malayan bank is under no legal obligation to maintain a fixed percentage of reserves against liabilities—monetary or otherwise. Prudence will, however, suggest a limit below which a banker does not allow his cash assets to fall. His cash reserves are divided into dollar reserves and sterling reserves, and the proportion which he decides to keep in each will not affect the money supply, although it may be indicative of his loan policy. For example, if a banker is known to have a very minimum of dollar reserves but large amounts of sterling and shows no signs of transferring sterling to dollars, this might indicate that the banker does not intend to increase his loans and investments in the Malayan Currency Area. Anything which changed his attitude could as quickly change the proportion of dollar reserves to total reserves that he held.

A manager of some British Exchange Bank branch in Singapore may decide to increase his sterling investments by moving funds from Singapore to London and investing the sterling proceeds of the transfer. The money supply of the Malayan Currency Area is not thereby affected, and an increase in the bank's sterling investments in the manner described is merely a change in the form of his reserves. The total reserves of a bank consist then of legal tender, domestic inter-bank deposits, sterling, and sterling investments. For the monetary system the inter-bank reserves cancel out.

If the banker could be sure that persons to whom loans were made would use the funds so obtained only to pay into the current accounts of other customers of the same bank, a further restriction on the ability of the bank to loan would be removed. He knows, however, that when he makes a loan, his cash assets will be subject to a drain—the inter-bank drain—whenever the borrower writes a cheque payable to a customer of another bank or independent branch of the same bank in the currency area. As a rough estimate, he will lose cash inversely to his share in the banking business of the area, i.e. the bigger the bank, the smaller the inter-bank drain. For the banking system as a whole, there is no inter-bank drain, for the cash that is 'lost' to one bank is paid into another, and the total reserves of the banking

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system are not affected. If the banks are expanding their loans at about the same rate, then there may be no net loss from the individual bank's reserves over a reasonably short period of time.

Of that part of the funds re-deposited with the lending bank, part will, however, be taken out in legal tender, and there is, therefore, a legal tender drain; part will be spent, perhaps, to buy sterling, and this can be called the 'sterling drain'. Together they are the 'currency drain'. The banker's knowledge of the usual proportion between the two elements of the cash drain may enable him to decide on the best possible distribution of his reserves as between sterling and dollars, but it is the currency drain as a whole, together with the cash reserves as a whole (including sterling securities), which influence his decision whether or not to grant a loan in the first place.

This can be made clearer perhaps if it is realized that, in one sense, there is only a legal tender drain. When a borrower requests sterling and pays for it with an overdraft or from a current account which is the result of that loan, the bank first loses legal tender, either to the Commissioners or to another bank—if the latter, it may simply be that the other bank's claim to legal tender is increased by an increase in the inter-bank deposit it holds with the sterling-buying bank.

The ability of a bank to extend credit, given the size of its reserves, depends then upon three consideration—the reserve ratio which the bank decides to maintain, its size in relation to the banking business in the monetary area, and the preference of the public in the currency area to hold cash as opposed to current accounts. This can be expressed by a formula which should give the ability of the bank to lend for one unit of reserves. The ability of the bank to increase the money supply is further affected by the public's desire to hold time or deposit accounts.

Assume that there are two banks, A and B. B could also be considered as the 'rest of the banking system'. Let:

Ha = the size of Bank A
Hb = the size of Bank B

Then: $Ha + Hb = 1$.

Let:

Ra = reserve ratio of Bank A
Rb = reserve ratio of Bank B

Assuming that the banks expand at the same rate, the reserve ratio for the banking system as a whole will be: $HaRa + HbRb$ or R.

Let: C = the currency drain
Ea = maximum possible purchases of earning assets by Bank A
E = maximum possible purchases of earning assets by the banking system
Ba = surplus reserves of Bank A[1]
B = surplus reserves of the banking system
S = preference of the public for deposit or time accounts as opposed to current accounts.

Considering only Bank A, assume that Ea is lent and that this sum is spent and that Bank B does not lend during this period. The inter-bank drain on Ea lent will be $Ea(1 - Ha)$. It follows that $EaHa$ will be credited to accounts in the lending bank. Of these accounts $S(EaHa)$ will be time or deposit accounts. The increase in current accounts will be $EaHa - S(EaHa)$ or $EaHa(1 - S)$. Some of the holders

[1]'Surplus' in the sense of being over and above Ra times the current accounts of bank 'A'.

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of these current accounts will require a certain ratio C in legal tender or will require sterling for which the bank will have to give up legal tender, assuming that inter-bank deposits remain the same. The currency drain for Ea lent will be: $C[EaHa(1 - S)]$. The net increase in current accounts will be $EaHa[(1 - S) - C(1 - S)]$, and the reserve drain will be Ra times this quantity, which as simplified will be $Ra[EaHa(1 - S)(1 - C)]$.

The summation of the inter-bank and reserve drain will be as follows: $Ea[(1 - Ha) + RaHa(1 - S)(1 - C)]$. Let everything within the brackets be called Ka; then $EaKa = Ba$. The maximum amount of loans which can be purchased by Bank A times the coefficient of cash drain—the amount of surplus reserves which will be lost to Bank A for every one dollar of loans made—must be equal to the amount of those surplus reserves. Or: $Ea = Ba\ 1/Ka$, that is, the maximum amount of loans a bank in the Malayan Currency Area can make at any one time depends upon the size of its surplus reserves and the loan coefficient—$1/Ka$ gives the amount of securities which can be purchased for every one dollar of surplus reserves.

The effect on the money supply is modified by the fact that an increase in earning assets on the part of Bank A has increased current accounts, legal tender in the hands of the non-banking public, and time and deposit accounts. The last-mentioned item is not a part of the money supply, and, therefore, the ability of the bank to increase the money supply with every one-dollar of surplus reserves is not as great as its ability to buy earning assets. The monetary coefficient is $(1 - S)/Ka$.

One extremely important assumption has been made. The currency drain—the sterling plus legal tender drains—has not been calculated as a factor in either the loan or the monetary coefficient, except to the extent that reserves are supposed to be held against the increase in current accounts only, and therefore, the amount going in the currency drain had first to be subtracted before the reserve drain could be calculated. The bank which loses its reserves to the currency drain can be supposed capable of borrowing from its main office in London or on the London money market. It will lend to such an extent that this becomes necessary only if the demand for loanable funds in Malaya is such as to warrant it. The entire facilities of the London Money Market are at the disposal of the banking system in Malaya.

The assumption that reserves are calculated against current accounts is purely hypothetical. The formula can be rearranged to meet any reserve ratio procedure.

For the banking system as a whole, the inter-bank drain is zero and the reserve ratio R. Then: the coefficient of cash drain, K, is given by $R(1 - S)(1 - C)$; $E = B\ 1/K$; and the monetary coefficient is $(1 - S)/K$.

Potentials of Monetary Policy

If the Malayan monetary system were purely automatic—as the study of the Currency Fund alone might lead one to suppose—there would be no opportunity for the participating governments to have anything verging on a monetary policy, without changing the basic structure of the monetary system. The implications of such basic changes are to be studied in the following chapter. Before contemplating the possible need for major changes, it would be well to understand the existing potentialities. It is better to use the term 'potentialities' because at the present time none of the participating governments seem to have, or feel the need for, a monetary policy.

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To the extent that the banking system can obtain sterling assets by borrowing on the London market, the participating governments can have no control over the final volume of 'surplus' reserves held by the banking system of the Malayan Currency Area, and, therefore, they cannot have final control over the volume or the size of the money supply. It is precisely because the colonial monetary system with its access to the London market is as flexible as the English banking system will allow that monetary control, if desired, would be difficult. It would not be impossible.

The other determinant of the amount of earning assets a bank can buy is the loan coefficient, and its size depends upon the reserve ratio and is affected by the public's relative preference for time and deposit accounts over current accounts and legal tender or sterling over current accounts. There are no legal reserve requirements in either the Malayan Currency Area or the United Kingdom, and their imposition on banks would be contrary to the traditions of British banking. This does not mean that they could not be imposed,—as they have in Nigeria—but they might imply that the usual co-operation between the governments and the banks had broken down. There might be some reason for this where political independence changes the nature of the government or of the banks, making that traditional co-operation more difficult. There is, however, a basic objection to such a form of restriction. Reserve requirements are non-discriminatory—they present loans which are desirable as well as those which are undesirable. It might be possible to break down the loans into categories, with different reserve ratios for each, but the energy and time spent in this work could better have been spent in securing the co-operation of the banks in the governments' general economic programmes. And, as the recent development in Hong Kong indicates, the banks can impose discriminatory credit restrictions if they desire to do so.

In any case, what is the authority which will make the changes in the legal reserve requirements? There are five governments participating in the Malayan Currency Area, and in the three Borneo territories there are so few banks that elaborate controls would be ridiculous. These territories are sufficiently isolated for it to be quite possible that a policy which was all right for the Peninsula would not be all right for British Borneo. There is no central monetary authority. The Board of the Commissioners of the Currency is not designed to be such an authority, and making it one would be a major change of the kind to be considered in the following chapter.

The preference of the public for time or deposit accounts may be considered to be beyond the control of a monetary authority, and it is even doubtful as to how responsive the preference for such accounts is to changes in the rate of interest on them—within a reasonable and relevant range.

Similarly the public's preference for legal tender cannot be controlled by a monetary authority for the purposes of implementing a changing 'monetary policy'. It would be possible to make a secular change in the preference for legal tender, and this can be expected in the same way that the preference for the Straits silver dollar changed in favour of the government currency note. By increasing banking facilities, by public education, both adult and in the schools, a campaign could be waged to encourage the use of bank money as opposed to legal tender. Undoubtedly such a campaign would have some success. The result would be that the government lost further control of the monetary system. It would be an additional responsibility of the banks to control their loan and investment policy.

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There are short run changes in 'C', but these may be the result of the movement of workers, a change in the wage rates, the timing of payments—many unpredictable items which are not subjects of monetary control.

It would be well to return, then, to the problem of the reserves of the banking system. Singapore and the Federation can effect the size of these reserves, even though they cannot control absolutely their size, and the Borneo territories with their independent branches of the exchange banks would not have their local loan and investment policies impaired. The governments may keep their funds either with the Crown Agents in London and in the Joint Colonial Fund or with the government's bankers in Singapore or Kuala Lumpur. If the funds are kept in Malaya, they add to the total of surplus reserves against which the banking system may expand the money supply. If the funds are kept with the Crown Agents, while they remain a sterling asset of the Malayan Currency Area, the area's banking system has no access to them.

In periods of high prices on primary products, there is, as has been shown, a tendency for an increase in the money supply. During large rises in the price of rubber and tin, this increase may affect the cost of living, although, providing prices of imports remain steady, it has not always done so. At the same time, however, government revenue from export taxes and from all sources is most liable to increase, especially since the levying of the anti-inflationary cess on rubber over 100 cents a pound was initiated in June, 1955. The transfer of these funds to London, if done through the Commissioners of the Currency, will have an anti-inflationary effect on the economy. If the transfer is made on the inter-bank market for sterling, there is no necessary decrease in the money supply, but it is true that the money supply will not increase as much as it would have otherwise—the effect is likely to be almost identical whichever method of transfer is used. In the case of the use of the inter-bank sterling market, the dollar funds of the government are, in effect, transferred to the credit of some person moving funds to Malaya, and the government receives their sterling, which is then transferred to the Crown Agents.

A prominent Singapore banker was of the opinion that if the Government did not keep its funds with Malayan banks, the bank would not be in a position to buy local government treasury bills. This is an admission that the loan policy of the banks can be influenced by the movement of government funds.

The Government can borrow funds locally, despite the fact that the market for such securities is hardly developed. It is in fact cheaper to borrow locally when the Crown Agents' commission is included, as it must be in total costs.[1] It would be possible to sell limited quantities of government securities to the non-banking public during periods of inflation, and then transfer the funds to the United Kingdom, investing them there. This does not seem very practical in the absence of a discretionary monetary authority, and is an attempt to parallel open-market operations without the facilities of a central bank or without a monetary authority equipped to handle the situation. The ability and willingness of the public of Malaya to buy large quantities of government securities has been limited in the past but might be developed. A contra-cyclical fiscal policy is possible but of unknown practicality under the present monetary system in Malaya, although, in the nature of the tax system and the new anti-inflationary cess, there are the basic elements of such a policy.[2]

[1] According to the calculations of the Financial Secretary, Federation of Malaya.

[2] The export tax on rubber is highly progressive; the revenue from the anti-inflationary cess will be returned to the industry in times of low prices—two important contra-cyclical policies.

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During periods when sterling-dollar transfers are not accomplished through the Commissioners of the Currency, such transfers do not affect the money supply directly. If the Government during such a period wished to increase the money supply, it could buy the sterling from the War Office, for example, and undertake to provide the dollar funds. Dealing through the Commissioners of the Currency, the Malayan governments would obtain dollars which, being in the possession of the non-banking public, would be part of an increased money supply, even though they were deposited in the banks immediately afterwards. There is nothing to prevent the banks from moving the funds back to London again, but a transfer on the inter-bank sterling market would not affect the money supply and the rate of the Commissioners would be prohibitive. In any case, the money supply and the reserves of the bank, which can be used for further expansion, will have increased.

Closely related as are the monetary systems of the United Kingdom and the Malayan Currency Area, they are not identical. The banks have access to London; they have a very minimum of exchange risk; but there is an exchange rate, and it does cost something to move funds from London to Singapore and vice versa. Therefore, the loan and investment policy of the banks will be affected by their holdings of dollar reserves, and these reserves can be changed by action of the participating governments. It might be said that the response coefficient of the Malayan banks is, all other things being equal, directly correlated to the proportion of its assets which are held in the Malayan area. The effect of the exchange costs on the loan and investment policy of the banks cannot but be marginal, and it is wise to look upon the banking system of the Malayan area as one which is almost, but not quite, identical with that in the United Kingdom.

The close relationship between the Malayan and the British banking systems is of importance not only to the banks themselves but also to private investors both in the United Kingdom and in Malaya British Borneo. Interest rates in London are bound to affect those in the Malayan currency area. Obviously, if the rate on usance bills in Singapore is based on the London discount rate, any change in London would be reflected almost immediately in Malaya. Thus the whole structure of interest rates would shift at a time when this might be disadvantageous to some government policy in the Malayan Area. However, it is through the close monetary relationship that certain interest rates can be so low for an undeveloped area, and this advantage is not offset by the fact that during some periods interest rates have to be raised.

The very flow of capital into Malaya depends upon the stable relationship with London. This is not to prejudge the problem of estimating the amount of capital inflow once the relationship is removed, but it is obvious that overseas investment is sufficiently burdened with risks that the addition of an exchange risk or repatriation risk would be bound to affect investment in areas moving to internal self-rule.

High interest rates in London may mean the transfer of funds from Malaya to London for short-term investment at a time when the funds could well be used in Malaya. Such a movement might offset any government policy to transfer their funds to Malaya and so increase the banks' dollar reserves. But this tendency is offset by the resulting rise in Malayan interest rates, which are the obvious consequence of the events in London.

It does not follow from this that the Malayan banks are influenced in their loan and investment policy solely by monetary conditions in the United Kingdom. Obviously, any Malayan banker will consider the situation in the London money

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market, but his primary concern will be with conditions in Malaya. The higher the currency drain, the lower the surplus reserves, the more closely the banker will look at London; and there is another reason why the amount of dollar assets the banker has is of importance. The Malayan banker has recourse to all the facilities of London, but he is only concerned with them when there is a need to use them. Conditions in London cannot, then, act against the interests of Malaya through the Malayan banking system, since London provides facilities which are something in addition to those available in an undeveloped area, in an undeveloped money market. Being something 'extra', it is better to say that they are more useful at some times than at others but their availability does not force Malaya to follow an identical monetary course with the United Kingdom; these facilities do not prevent Malaya the independence described.

Chapter 4

THE MALAYAN CURRENCY AREA TOMORROW

Introduction

Singapore and the Federation of Malaya are fast moving to some degree of political independence within the Commonwealth. A political independence which finds no economic counterpart, which allows a continuation of a system by which the country is tied closely to the imperial power is, some would claim, no real political freedom at all and certainly no economic freedom. This must be the basic criticism of the colonial-type sterling exchange standard, but it is a criticism which may not be valid.

The granting of political freedom does not alter economic facts of itself. Despite, therefore, the disclaimer in the preface, it is necessary to first make some brief comments on the general economic situation of the Area.

Relative to other areas in Asia, Malaya has enjoyed a high per capita national income—estimated at $800 in 1953. Heavy foreign investment, especially in the rubber and tin industries and in the entrepot and other trade facilities of Singapore and Penang, has outpaced the growth in population, a large proportion of which, in pre-war days at least, considered China or India as the home to which they would return at the end of their working lives. Today, the population growth is high—32 per thousand in the Federation and 38 per thousand in Singapore during 1953—, and although Chinese and Indians continue to remit funds to the mother country, they tend to regard Malaya as their home. At the same time, political changes leave in doubt whether foreign private capital will continue to be imported at the previous rate. The natural rubber industry is itself under challenge, and the Emergency, in addition to providing an obvious and immediate drain on the country's resources, has also hindered prospecting for further tin deposits.

Pre-war Malaya was subjected to the varying fortunes of factors external to the economy. There is still this instability inherent in the economy today, but, in addition, Malaya has secular problems which threaten her economic position. It is reasonable to estimate that population will double in the next twenty-five years, but the other problems which Malaya faces—the future of rubber and tin, the source of foreign capital, and the role of Singapore in Far Eastern trade—are almost too uncertain for sensible discussion.

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Despite these changes, the structure of the Malayan economy has, as yet, undergone little change. Its connections with the United Kingdom are obvious. The income from exports depends almost entirely on the export of primary products, and no coherent effort has been made to encourage the development of light industry on any large scale. The International Bank Mission report proposed tariffs to protect the Federation's projected industries against foreign competition —including that from Singapore—a move which threatens the obvious economic unity of the Malay peninsula and would make even more difficult the achievement of political unity. The wave of strikes in Singapore during 1955 coincided with and was inspired by political developments, but, whatever the cause, there is definite evidence that investment in Singapore has been postponed. Such contradictory events will not help the Colonial Development Corporation to fill its industrial estate on the outskirts of Singapore.

As yet 'diversification' is but a catch-word, a slogan. The efforts of the Federation Government in the implementation of the Mudie Mission Report on the rubber industry in Malaya indicate clearly that rubber will continue to play its present role—perhaps even an increased role—in the economy.[1] The International Tin Agreement, coupled with the possible ending of the Emergency, will insure an important place for tin in the economy. In practical terms, 'diversification' has resulted in the encouragement of Colonial Development Corporation and private capital to develop the long-neglected cacao industry. This is, however, another primary product the price of which is liable to fluctuation.

In Singapore there is more substance to 'diversification', but labour unrest has prevented the Government's declared policy of encouragement to industry from having, as yet, any effect. On the other hand, some hope the new political situation is favourable to Singapore's entrepot trade, since many of the younger countries of the region are said to have been attempting to bypass the Colony in a political —and costly—boycott of colonialism. It is doubtful if this theory has any validity —Nationalism is the key to Southeast Asia.

The Borneo economies, although varied, are all dependent upon the export of primary products—Brunei on oil, North Borneo on timber and rubber, and Sarawak on rubber and pepper. As radical changes in the Area's monetary system will be initiated from Malaya, not from Borneo, it would be well to concentrate on the problems and characteristics of the more developed section of the Area. Yet this very difference between British Borneo and Malaya focusses attention on another problem—drastic monetary reform may be in the interest of one territory but not in the interest of the others. If this is the case, either there must be a break-up of an Area which has existed as a *de facto* monetary unit since the eighteenth century at least, or the pace of development in British Borneo must be forced—and there seems no practical way to effect this latter policy. Proposals which require the economic separation of the territories, now so dependent upon one another, are unfortunate and cannot help but retard the development of the Area as a whole.[2]

There have been, in other words, no economic changes which would warrant monetary change. This does not, however, settle the problem. Monetary change might induce other economic changes, or monetary change might be symbolic

[1] *Report of the Mission of Enquiry into the Rubber Industry of Malaya* (Kuala Lumpur, 1954).

[2] Federation of the Borneo territories is unlikely for some time to come. The oil-rich State of Brunei, upon which such a plan depends for its success, does not, for obvious reasons, favour federation, and Mr. Lennox-Boyd's announcement that the Colonial Office would assist its formation was premature.

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of the independence Malaya demands. The first point is really the subject of the remainder of this chapter, and a few comments on the latter point are all that are necessary.

Other countries with newly-won political rights have separated their economy from that of the former imperial power as an essential step, at least in their reasoning, towards 'real' freedom. In some cases this separation, e.g. Taiwan from Japan, has been largely illusory; the trade pattern continues in much the same way as before, with perhaps the disadvantage of having to compete for the old protected imperial market against other suppliers, or perhaps, as in the case of Burma, facing exchange problems which were non-existent under the colonial regime. Other countries have made the separation quite frankly from the emotion of the moment, e.g. the Republic of Korea, suffering quite willingly a lower national income if only dealings with the hated power can be cut to a minimum. In still other countries, ambitious planners have attempted, often with the advice of experts, to duplicate for reasons of national prestige, the mechanisms of more economically-advanced areas with no real advantage in the economic sense.

It has been the good fortune of Singapore and the Federation that the members of her new governments and the political leaders of her majority parties have not reacted with such economic emotionalism. Their attitude to a central bank, for example, has been reasonable; they have signified their intention of consulting experts before moving ahead with the project which was recommended, prematurely, in the International Bank Mission's report. In some cases, the economic separation of the former colony from the imperial power, although performed as an act of emotionalism, may have sound arguments to support it, as, perhaps, in the case of the three formerly associated states of Indo-China—Vietnam, Cambodia, and Laos. It would be begging the question to assume, for example, that the source of Malaya's foreign capital will always be, as it has been in the past, the United Kingdom.

This chapter is not a blueprint for the necessary monetary changes for the Malayan Currency Area in the distant future. It is, perhaps, more sceptical than helpful, but it does question the usefulness of drastic monetary reform in the immediate future, a matter which, in the enthusiasm of the moment, may not have been fully considered.

The Sterling Reserve Requirement

Although the author of *Monetary Systems of the Colonies* has overstated the case when he writes, "In such matters as monetary and credit policy there is in effect no more room for a policy for any individual colony than there is for a policy for an English county",[1] the last chapter has shown that the potentialities for such a policy are limited. This is partly the result of the 100% sterling reserve requirement which the Currency Fund is statutorily obligated to hold against notes and coin in circulation.

Colonial balances have increased during the post-war period at a time when both the Labour and the Conservative parties were priding themselves on colonial investment. As Arthur Hazlewood puts it:

> "The colonies obtain some benefits from the balances—they yield interest; they help to finance the banking system; and they provide a reserve to

[1] *Monetary Systems of the Colonies* (London: *The Banker*, 1950), p. 3. This is an authoritative summary, which, together with G. L. M. Clauson, 'The British Colonial Currency System', *Economic Journal*, LIV (April, 1944), pp. 1–25, were the basic works on the colonial currency system.

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be drawn on in bad years. Yet their investment of £1,000 million in Britain does not accord well with commonly-held ideas on the desirable direction of capital flow between countries at different levels of economic development."[1]

The largest portion of the colonial sterling balances is composed of the sterling assets of the various currency funds. As Hazlewood says, "The effect of the 100% reserve system is to compel the holding of this sterling and to prevent any of it from being spent on imports".[2]

These then are the two general criticisms of the currency system in Malaya today—and the currency system is admittedly only part of the 'monetary system' to which these criticisms are indirectly applicable. They must both be considered in this section.

The Sterling Balances. Sterling balances totalled $2,211 million in 1951, $2,121 million in 1953—including government, currency and commercial banks sterling. But to write only of the size of the colonial balances is somewhat deceptive, since large parts of the balances are in a state of flux. Typically, colonial investment in the United Kingdom is short term; that of the United Kingdom in the colonies, long term—not a unique situation in economic history. There are exceptions, especially in the currency fund investments. The growth of these balances indicates in general, that the colonies have not spent all the sterling that is available to them, and that they have made, therefore, a net investment in the United Kingdom.

Omitting reference for the time being to the sterling assets of the Currency Fund, it is still true that the Malayan Currency Area has made a net investment in the United Kingdom. What is the significance of this? The existence of sterling investments and cash is again evidence of the fact that development is not a simple function of the money available to the 'under-developed' area. No one would argue but that Brunei is under-developed, but it is still sensible for that State to make a loan to the Federation.

The 'emergency' in the Federation, the changes in export prices, and the general financial situation were such that they 'completely invalidated the basic assumptions' underlying the Development Plan.[3] Post-war shortages of capital goods, the difficulty of formulating development plans, the unpredictable changes in the price of Malaya's exports, shortage of manpower—both experts and local skilled and unskilled labour—combined to make impossible the correlation of government expenditure with government receipt. Hence the growth of that portion of the sterling balances ascribable to the governments. The surplus funds of the governments need not, of course, have been transferred to the United Kingdom; they could all have been deposited with banks in the currency area, with results which formed the basis of the last section in the preceding chapter.

In fact, the Government did keep part of its funds in local banks. Sarawak, for example, had $4,852,667/15 in 'cash' and a $1,546,010/06 fixed deposit with the Chartered Bank in Kuching. This contrasted with the $47,228,571/43 with the Joint Colonial Fund on the same date, 31st December, 1953. In the opinion of

[1]A. D. Hazlewood, 'Colonial External Finance since the War', *Review of Economic Studies* (December, 1953), and issued as No. 8 of the Oxford University Institute of Colonial Studies, reprint series, p. 49.

[2]Hazlewood, 'Sterling Balances and the Colonial Currency System: A Reply', *Economic Journal*, LXIV (September, 1954), p. 617.

[3]Federation of Malaya, *Progress Report on the Development Plan of the Federation of Malaya, 1950–1952* (Kuala Lumpur: Government Printer, 1953), p. 5.

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leading government officials in that colony, development could not have proceeded at a faster rate, and the sum on deposit in London is there because it could not have been used in Sarawak. The same can be said of the situation in other territories.

The accounts of the Singapore Government show similar statistics.

CASH:	*1st January, 1952 (actual)*	*1st January, 1953 (estimated)*
	$	$
Cash in Treasuries	194/47	200/–
Cash in Banks	13,876,222/78	13,156,732/–
Cash with Crown Agents	19/32	5,170/–
Joint Colonial Fund	977,142/85	6,205,710/–
INVESTMENTS:		
Surplus Funds Sterling Securities	53,576,592/93	84,080,500/–
Surplus Funds Dollar and Rupee Securities	10,508,684/80	13,881,750/–
Opium Revenue Replacement Reserve Fund	50,912,618/33	48,412,620/–
Others	7,526,501/32	7,627,640/–

In addition to these investments, the Colony made loans and advances for various development projects amounting to $149,688,733/–, at the same time it held growing sterling balances. The Federation had sterling balances totalling £139,574,268/– exclusive of currency funds.

The term 'sterling balances' covers all kinds of colonial sterling funds deposited under all sorts of conditions. There is difficulty, therefore, in conceiving of *the* problem of the sterling balances. Even within the Malayan Currency Area there is great diversity in the source, nature, and use of this sterling. Consider for example the £139,574,268/– of the Federation. Of this, £89,358,988 are funds of the currency commissioners; some £37 million are held by the accountant-general of the Federation; the rest is held by miscellaneous bodies—the Post Office Savings Bank, £9·8 million; Malayan Railways, £1·2 million; the Central Electricity Board, which also had a Colonial Development Corporation loan of up to £20 million on call, £·3 million; and the public trustee funds and co-operative societies hold sterling. A generalization concerning the holding of sterling by these differing institutions would be unwise, but unless it can be shown that the location of these funds is depriving Malaya of required capital, then it would seem that their short-term investment outside the Area is an excellent source of additional revenue. If it is shown that their investment in England is detrimental to the Federation, the government must decide between the income obtained and the sense of security investment in sterling provides—for example, for post-office savings bank funds—against development finance considerations.

The State of Brunei presents an altogether different problem with its M$241 million-worth of sterling balances at 31st December, 1954. Brunei's M$100 million development plan was, in early 1955, seriously behind schedule, and although it was expected to be completed by 1958, the date is now more likely to be 1962–63, although further projects may be started before that date. Meanwhile, sterling balances have been accumulating. In 1955 expected income from sterling investments was M$9·5 million, or almost 25% of the State's expenditure on current

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account. Far-seeing Brunei has realized that initial development costs are but part of the financial burden a state must bear. Development means an increase in social welfare services and other services which cause increased recurrent expenditure. And despite the recent oil strike at Jerudong—the potentials of which were not known at the end of 1955—Brunei is preparing her finances for the day when the oil-fields have run dry. If production of her Seria field should be undiminished for 30 years, it is a conservative estimate that 50 per cent. of the then current budget will be covered by income from accumulated sterling balances. Brunei has also bought M$1 million of Malayan dollar securities.

Government and government-controlled organizations are but one source of the colonies' sterling balances. Another source is the commercial banks, which keep large portions of their reserves in the United Kingdom in preference to Malaya. In 1949 these balances, from Singapore and Federation banks only, totalled M$953 million at the end of the year; M$1,514 million at the end of 1950; 1951, M$2,211 million; 1952, M$520 million; and 1953, M$491. To this extent, the banks indicate that they do not expect to invest in Malaya beyond a certain limit, but previous analysis has shown that this limit is not a function of the currency system and that it may change on a decision of any banker. The existence of surplus bank funds in London is not incompatible with the existence of long-term loans to the area, since such lending is not a function of the banks, but rather of private enterprise or, failing that, governments working under suitable development plans. As an individual may borrow for some specific project at the same time as he possesses a growing current account in his bank, so a colony may receive development grants and have growing sterling balances.

This leaves the sterling assets of the Currency Fund still to be discussed. At the end of 1953 the liquid portion of the Currency Fund in London amounted to $108,899,612/71 and the investment portion to $782,798,001/79, the largest single item in the sterling balances of the Malayan Currency Area. Nevertheless, the existence of other untouched sterling assets seems to indicate that the growth of the sterling assets of the Currency Fund could not be held responsible—in the past—for the fact that Malaya remains, as she is bound to do for many years to come, a relatively undeveloped area.

This does not mean that in the future, the Malayan Currency Area will not be using sterling for capital imports to such an extent that its sterling balances will be drawn down. Already the Government of Sarawak is thinking in terms of a sterling loan, and the Federation has already borrowed in London and will borrow again.[1] The time may come very shortly when the area governments wishing to buy capital goods in the United Kingdom will find that their sterling balances are limited to current revenue transferred to the United Kingdom, the assets of the Currency Fund, and the proceeds of loans, together with whatever grants it may receive from an expanded aid-to-East-Asia movement.

[1]Eric Himsworth, 'Budget Speech', as reported in the *Far Eastern Economic Review*, XVII (December 9th, 1954), pp. 748–752.

'A year ago we intended to raise the sum of $100 million in the Federation to finance loan works. A loan of $60 million was raised in January of this year 1954 on the local market, and Government also took the opportunity of entering the London market in June. The local loan was a 20-year loan at 4½%, and was over-subscribed. The London loan was raised in two parts, £2,900,000 was added to the 1960/70 3% Loan, at £847/8 to £85 and £1,895,000 to the 1947/76 3% Loan at £811/8 to £813/8. The net result will be that while interest payments on this sterling loan will be kept small, capital appreciation will be substantial when the loan is eventually repaid at par. It was not necessary to raise additional sums on loan in 1954 because the pace of loan expenditure was considerably less than that anticipated'.

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Attention then will certainly be focussed on the Currency Fund and its temptingly accessible sterling assets.

The 100% *reserve system.* Although there has been considerable misunderstanding in the past, it is now generally accepted that the 100% sterling reserves system places no undue hardship on or requires no individual sacrifice from the holder of Malayan currency. The fact that he holds that currency is in itself an indication that it is not being used to purchase goods of any kind. Its existence is an indication that it is not being used to finance the import of goods from abroad. As Mr. Niculescu recently commented:

> ". . . As Miss Greaves indicates, the *individual* holders of local currencies would be in the same position as before; but, as Mr. Hazlewood argues, the respective *communities* would have access to additional resources, in sterling, set free by this change . . ."[1]

A government currency note is an interest-free loan to the issuing authority.

The Board of Commissioners is given sterling for its paper notes, but under the 100% reserve system, the argument of Mr. Hazlewood continues, the Board cannot use that sterling for imports into an area which is admittedly undeveloped. The figures and nature of the sterling balances would seem to indicate, as already suggested, that this inability to purchase imports with the sterling of the Currency Fund has not been a limiting factor in the area's development. This situation could change.

Actually, even under a 100% reserve system the sterling assets of the Board can be used to purchase imports. Sterling cash assets can be used to purchase sterling securities of the area governments, which can then use the funds to buy goods as required. In fact, this has been done, and the Fund held local sterling securities from 1913 to 1936, and until 1949 held £103,600-worth of F.M.S. 3% 1960–1970. The borrowing government pays interest through the profit distribution system to the other governments for the use of common funds. At present this same situation occurs indirectly, since the Crown Agents, acting for the Boards, invest part of each Colony's assets in the securities of another up to a working limit of 30%, which has not as yet been reached in the case of Malaya. Realizing that the present system is a mere complication, it might be said that the present reserve system is a 70% rather than a 100% one.

It is very important to understand the principles involved in this matter of reserves. The basis of the colonial currency idea is that the colonial currency will always be transferable into sterling on demand. If this is the case, sterling reserves ought to be held against the dollars in circulation, but, as has been shown by many others, not necessarily 100% or even 70%. It is difficult to conceive of a situation in which all of the Malayan currency now in circulation will be presented to the Board of Commissioners for sterling. There is, under normal circumstances, a certain portion of the currency supply which will not be brought to the Commissioners for redemption. If this amount could be calculated, it would be unnecessary to hold reserves against it. It is, in other words, only necessary for purposes of dollar-sterling exchange to hold reserves against those notes which are liable to be presented to the Commissioners. While it is undoubtedly impossible to know what proportion this would be with any exactitude, a conservative estimate could be made, and this be arbitrarily the proportion of sterling reserves required. The estimate would have to be revised from time to time, apart from any changes that might be made in the proportion for reasons of monetary policy.

[1]Niculescu, *Op. Cit.*, p. 619.

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Such a course is both possible and within limits practical; it could be done quickly and within the present monetary structure. It is essential, however, to know the full implications of such a policy as well as its more dangerous potentialities. First, it would be well to remember that the area has never been unable to float its securities on the London market, and it is doubtful if the time will ever come when reasonable quantities of such securities will be unsaleable, providing there are the safeguards which usually attend a sound government borrowing programme and development plan.

The sterling assets of the Currency Fund are capital, and their expenditure on imports either directly or through government borrowing is not a net capital gain, but the substitution of one form of capital for another. It is one of the advantages of the colonial currency system that the assets which the Board receives as the issuing agent, i.e., the interest-free loan, need not be invested within the monetary area, but can be invested elsewhere and earn interest. The benefits which Hazlewood describes as coming from the sterling balances are not to be casually dismissed.

It is true that the ability of the Malayan Area governments to borrow from the Currency Fund without recourse to the London market would have certain conveniences. The difficulty with the less than 100% reserve system arises not from the nature of the system itself, but from the abuses which usually follow. The conservative estimate referred to above may be changed as governments in temporary financial difficulties find themselves unable to resist the temptation of making yet another inroad into the assets of the Currency Fund. At least China, Ceylon, Burma and the Philippines have been unable to resist the temptation, and exchange difficulties have been the result. Providing, of course, exchange control, fluctuating exchange rates, and trade restrictions are made part of an area's economic policy, there is practically no limit to the government's ability to spend the assets of its Currency Fund. This will be discussed under the section on the Central Bank.

Monetary Policy. Whatever the direct consequences of lowering the reserve requirements would be, there would certainly be secondary consequences of interest to those who advocate a greater flexibility in the monetary system of the Malayan Currency Area. The unwillingness—mistaken for inability—of the governments to check the inflation which rising rubber prices were supposed to have brought has been made an example of the bad effects of an automatic monetary system.[1]

The inflationary tendency in the Malayan area during the Korean War boom was inevitably given the basis of wage calculation in the rubber industry. If wages are to be directly correlated to the price of rubber—as well as the cost of living—the money supply of the country must increase when the price of rubber increases. There are ways to check such an inflation; a budgetary surplus is one such way, even though such a surplus may be used to buy sterling and increase the sterling balances. It seems as if the authorities are to be blamed both coming and going. If the movement of funds into Malaya was inflationary, it is unreasonable to complain that further funds were not moved in, or that large funds were moved out—providing they are still owned by the area or its residents.

[1]*Cf.* H. Schloss and H. Millner, 'Banking without a Central Bank: A Review of Experience in Palestine', *The Banker*, 85 (April, 1948), pp. 47–51, and J. P. Meek, *Malaya: A Study of Governmental Response to the Korean Boom* (Cornell University, Department of Far Eastern Studies, 1955).

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The same type of complaint is made in times of low rubber prices—the currency system with its 100% reserves is deflationary; the reserves cannot be used as the basis of a further issue of currency which would stimulate employment and bring the country out of the depression caused by the slump in rubber prices. As long as the marginal propensity to import is high, it will be difficult for the governments to increase the money supply under such circumstances; the import leakage will be too great. Although expenditure on public works, financed by borrowing dollar funds from, say, the Board of Commissioners or its more fully equipped successor, may be voted in dollars, any increase in the national income resulting therefrom will also increase imports. The public works themselves will be of such a nature that equipment is needed from the United Kingdom.

The deflationary effects of falling rubber prices can be balanced, even as they are today, by the use of accumulated sterling balances. The using of existing capital balances rather than the creation of partially-backed dollar funds was the topic of the last section and has its own dangers and difficulties. The governments are not now powerless in the face of inflation and deflation, but it is also true that in an economy the income of which is subject to fluctuations beyond the control of the authorities, simple changing of the monetary system will not create stability. Economic policies more complex and more basic are required to create stability, if indeed this goal is really desired.[1]

Malaya in the Sterling Area

Much has been made of the fact that Malaya is the largest U.S. dollar earner in the Empire, but the *Annual Report* of Singapore, for example, is proud of the fact that dollar-area imports have been cut to a minimum. Will an independent Malaya be willing to continue in the Sterling Area under such conditions?

A Chinese banker in Singapore felt that Malaya must continue in the Sterling Area but not at the present price. "We are undeveloped", was his comment, "and there is no reason why we should finance the development of India". There is resentment that the U.S. dollars earned by Malayan exports are used to buy dollar-area goods for India which are forbidden to Malaya, a situation emphasized by the fact that while Malaya's U.S. dollars are surrendered, she must pay open-market prices for U.S. dollar-area goods from Hong Kong. With political independence, Malayans will be in a position to make this point more emphatically.

During the rubber boom in 1951, Malayan exports to the United States amounted to $1,193,695,141/–, about 20% of the total exports. Imports from the United States amounted to but $218,043,032/– or 4·6% of the total imports. In the same year imports from the United Kingdom amounted to $788,461,813/–. Total figures for the colonies show that their contribution to the U.S. dollar-pool of the Sterling Area is slightly greater than the growth of their sterling balances during the same period (1946-52).[2] It is quite probable that without restrictions being imposed upon the colonies, their net foreign investment, represented under the present system by the growth of the sterling balances, would not have been as great if access to the U.S. dollar area had been possible.

[1] *Cf.* Sir Sydney Caine, 'Instability of Primary Products: A Protest and a Proposal', *Economic Journal*, LXIV (September, 1954), pp. 610–614.

[2] K. M. Wright, 'Dollar Pooling in the Sterling Area, 1939–1952', *The American Economic Review*, XLIV (September, 1954), pp. 559–576. See also a sound comment on this article by Ida Greaves and a rebuttal—perhaps missing Dr. Greaves' point—in the *Ibid*, XLV (September, 1955), pp. 655–661.

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Membership in the Sterling Area has not been without its advantages to the Malayan Currency Area. The area has been able to participate in the multi-lateral trade which the Sterling Area rules made possible within the Sterling Area itself. Secondly, it gave the Malayan Currency Area a relationship with the second international currency, thereby assisting here entrepot trade which was mainly with countries themselves short of U.S. dollar-exchange and willing to deal in sterling. Where the other countries objected, as in the case of Thailand and Indonesia with respect to certain U.S. dollar-earning exports, the Sterling Area exchange controls as applied to the Malayan Area proved sufficiently flexible to allow the exceptions necessary to maintain the entrepot trade.

The publicity which has been given to Malaya's contribution to the Sterling Area's dollar pool should not distract attention from the full Malayan trade picture as evinced in the table covering the direction of her international trade. A glance at the statistics for 1954 will show, for example, that of a total export of U.S.$263 million, only U.S.$37·6 million was with the United States (U.S.$44 million with North America) compared to U.S.$36·9 million with the United Kingdom, U.S.$92·7 million with the Sterling Area, and U.S.$89·4 million with Western Europe. It is begging the question to examine import figures, since exchange restrictions distort the proportions, but here again it is not only with the United Kingdom that value figures are high, but also with the Sterling Area as a whole and with Western Europe. And many of the other countries with which Malaya trades make their international payments in sterling.

The basic reason why the Straits Settlements went off silver in 1904 was their desire to link their currency with that of the United Kingdom where debts were payable and from whence capital might be expected. Later these conditions made it necessary for Malaya to remain in the Sterling Area, political considerations aside. Today, it is difficult to tell exactly what membership in the Sterling Area means. It is supposed to indicate acceptance of basic exchange regulatory principles, but independent members of the area are able to violate these—in agreement with the United Kingdom authorities, of course—and still stay in the Sterling Area. It is even possible to have an independent exchange-rate policy as in the case of Pakistan, and exchange stability with London used to be the minimum requirement before a country could be considered in the Sterling Area.

Membership in the Sterling Area seems to mean little more than formal acceptance of dollar pooling, under terms and conditions which are extremely flexible.[1] Malaya could hardly object to such conditions, even though she could not expect the same preferential treatment as, for example, India.

There are more positive reasons for continuing membership within the Sterling Area. While it is true that Malaya, in a sense, earns the U.S. dollars, it is also true that the majority of such dollars are the result of investment originating from the United Kingdom. A Malayan government which attempted to claim all the U.S. dollars earned from rubber exports might find it necessary to demand that all rubber be sold to the government, a condition which would hardly stimulate reinvestment in an industry which so badly needs that reinvestment. Capital has in the past, and will in the future, come from the United Kingdom, but it cannot come if the Malayan Currency Area should leave the Sterling Area.[2]

[1] As the recent Irish regulations seem to prove.

[2] This does not mean, of course, that foreign capital from other sources should not be sought and welcomed. At the time of writing there is not, however, any indication that other major sources will appear. Singapore's industry needs to expand, but higher costs and labour unrest have so far prevented any such large-scale development.

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Of course, if and when Sterling Area restrictions are lifted, there would be no reason for such a radical change in monetary allegiance. The only real question at issue then is what is the proper share of the Malayan Currency Area in its U.S. dollar earnings, or more accurately, in the U.S. dollar earnings of the Sterling Area, since most Malayan capital has originated from within that Sterling Area. This is a matter which can be solved within the context of Sterling Area membership.

A Central Bank

It was generally assumed by officials in Malaya that the coming of political independence would create a demand for a central bank. In fact, such a demand is incorporated in the platforms of the leading political parties of both the Federation and Singapore, but pressure for immediate action has not materialized, probably because it is so obvious that the problems of the Malayan economy are not monetary ones. Nevertheless, the recent publication of the International Bank Mission's report recommending a central bank for Malaya has given some impetus to the suggestion that experts examine the situation, and no essay on monetary problems would be complete without some reference to the establishment of a central bank.[1]

The only serious recommendation for a central bank comes from this International Bank Mission, and, therefore, examination of the problem may well elaborate on the points raised in the report. The Mission based its recommendation upon the changed nature of the Malayan economy, that is, they stressed the growth of purely domestic features in the economy—the settled labour force, the development of domestic banking facilities, and the volume of local monetary and capital transactions. While this change is undoubtedly important, the income of Malaya still rests on its external transactions, on its foreign earnings, and when they fall off, the income of Malaya falls—whatever *ought* to happen, or whatever is more pleasant given the new importance of the domestic problems. In fact, the Mission recognises this and feels that the ability of a central bank to smooth out fluctuations would be limited and that the margin for monetary management would be very narrow.

To quote the Mission specifically:

> "We recognise, of course, that since the export industries are the main pillars of the economy it would be idle and dangerous to attempt to maintain any substantial degree of internal stability irrespective of the fluctuating fortunes of rubber, tin and the entrepot trade. In an economy heavily dependent on foreign trade, like Malaya's, the margin for monetary management without upsetting the balance of payments is very narrow".[2]

This seems unequivocal, but the report continues:

> "Within limits, however, it could be widened somewhat . . ."

Income stabilization. What is this terrible danger of income fluctuation which even a minor damping would be of such value that the whole mechanism of a central bank must be established to accomplish? It is nothing more than a misreading of the events of the Korean boom, in which it is assumed that the 'inflation' in Malaya was the result of high prices of rubber and tin. As this is one of the themes of Mr. Meek's research work[3] and the implicit assumption upon

[1] International Bank Mission, *op. cit.*, pp. 166–169 and pp. 471–480.
[2] *Ibid*, p. 167.
[3] Meek, *op. cit.*

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which the International Bank Mission based the monetary sections of its report, it is a subject worth a brief examination.

Certainly the cost of living increased during the period 1951 and 1952, from 101 in 1950 to 133 in 1951 (Chinese in the Federation only), but it was not so much the price of rubber or tin that affected the cost of living, but the price of imported foodstuffs and other goods. The index number of the unit value of imports shows an increase from 115 in 1951 to 144 in 1952. Malaya not only exports for her income, she imports for her living, and the International Bank Mission has agreed that Malaya cannot become self-sufficient in rice or the other necessities which enter into cost of living indices.

Obviously the price of rubber will have some effect upon the level of prices in Malaya by putting large quantities of money into active circulation among those persons who are supposed to have a high marginal propensity to consume. But these persons do not always act in the same way. The actions of the small-holder in the Korean boom and during the high prices of rubber prevalent in the latter half of 1955 were not identical. In the first period there was wild buying, partly on credit, of durable consumer goods; in the latter period, any increase in demand has been met in the normal business of trade without effect on prices. And this, too, is partly due to the international situation. An increase in consumer demand in 1951 could not be met fully due to the demands of the war; in 1955 it was obvious that the increased demand for consumer goods could be met by additional imports which were, in fact, being made throughout the year.

There are two reasons for the different reaction to the 1951 and 1955 high price of rubber—once admitting the fact that the price of rubber in 1955 did not reach 1951 heights. One was the different external situation which has been mentioned, the other was the different reaction of the Government, which, in 1955, changed the tax structure on rubber exports. The initiation of a highly progressive tax on rubber exports coupled with an anti-inflationary cess appears to be all that is necessary to prevent the excesses of the Korean boom period.[1] The remedy is fiscal and not monetary, and the emphasis of government policy should be on counter-cyclical budgeting, not on monetary panaceas.

The International Bank Mission expects that with a central bank the margin for monetary management could be "widened somewhat", but even the brief exposition above should show that, to the extent the problem of fluctuating incomes can be controlled in an economy such as Malaya's, it is now being done through taxation. A central bank, however, might be expected to damp down fluctuations by controlling the granting of credit which is unconnected with the major causes of the fluctuations. Thus, for example, in a period of high rubber prices and possible inflation, perhaps the banks could be stopped from lending for consumption purposes or from providing funds to those who would bid for scarce labour resources for, to use one reasonable example, building purposes. First, it must be remembered that most consumption of this nature does not increase the demand on Malaya's production factors, since goods are imported and are likely to continue to be imported for some time to come. Secondly, the labour demand during a rubber boom is for tappers, who being skilled, can demand high rates of pay at such times but who cannot be bid away for other types of work, e.g. building. The anti-inflationary cess has been instrumental in minimizing the

[1]The revenues from the cess will be returned to the industry in an as yet undetermined fashion in periods of low prices.

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bidding of tappers away from estates by small-holders during the 1955 period, and the labour market in the rubber industry has been accordingly much more orderly than in the days of the Korean boom. Thirdly, the response co-efficient of the banks is not unity, that is, the banks are not lending, in general, to the limit of their resources, simply because there are not sufficient projects of a nature to provide the proper security for bank finance. It is a fact, obtainable from examination of the statistics, that bank loans, advances, and local investments did not increase in such a way as to aggravate the inflation or the fall in income which followed in the period under discussion. If it is feared that an increase in bank credit will follow high incomes, despite evidence to the contrary in Malaya, then the remedy lies in dealing with the high incomes, that is, an anti-inflationary fiscal policy.

It is here that the problem of the location of government funds again enters the picture. If in periods of high prices, the government keeps its funds in London and if in periods of low prices it keeps them in Malaya, this may be a monetary policy sufficient for control, given the present response coefficients of the banks. Funds for long-term capital development cannot be expected from the banks, and it is the development programme, or development in general, which accounts for the bulk of investment in Malaya. This is controllable by the Government directly in its budget, and this control, co-ordinated with a compensatory fiscal policy, is sufficient for the stabilization of income—in so far as such stabilization is possible or desirable in an export-dominated economy.

Nor is it necessary to establish a central bank in order that the balance of payments can be "closely and continually studied". Experience has shown that changes in the price of rubber cannot be predicted in any helpful way—if they can be, there are several speculators on the rubber market who would be most interested. Government counter-cyclical policy is now an accepted instrument of stability, and the creation of a central bank is not required to "exercise an important advisory and persuasive influence".[1] Of course, a Government embarked upon a compensatory fiscal policy may find, as the Report suggests, that it incurs a deficit, but if that deficit is small it can be met from accumulated sterling balances, if it is large it falls outside the 'prudent limits' which the Report considers, rightly so, appropriate in an export-dominated economy.

In the introduction to this chapter, there was warning that the essay would take a sceptical approach to the problem of reform, and it would seem that the need for a central bank as a stabilizing force in the economy is not proved.[2]

The banker's bank. Stabilization of income is not, of course, the only function of a central bank. Another important function is that of the banker's bank—a clearing house bank, a lender of last resort, the custodian of cash reserves, and the general guardian of the banking system's liquidity. The Mission's report stressed the potential role of the bank as lender of last resort, and it is this point which must now be examined.

The access of the Malayan banks to the facilities of London and the overseas origin of funds to finance her trade makes it unlikely that a Malayan central bank will have any additional role to play in the finance of that trade. The role of the central bank as lender of last resort is usually limited to certain types of assets, principally those which in Malaya are financed by overseas funds. The ability to rediscount or obtain advances from a central bank is unnecessary for Malayan

[1]International Bank Mission, *op. cit.*, p. 476.

[2]See for comparison, Wallich H. C., *Monetary Policies for an Export Economy* (Cambridge: Harvard University Press, 1950).

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trade and contrary to all banking traditions for long-term development finance. Rural credit and the problems of small industry are already the responsibility of specialized agencies, including co-operative central banks and institutions following the R.I.D.A. pattern.

As a banker's bank, a Malayan central bank would undoubtedly have a role to play. There is no one clearing bank in Singapore, and, no doubt, the creation of one would be welcomed by all except those banks now performing that function, who might, thereby, lose some of the deposits. As custodian of the banking system's cash reserves, the argument is that these reserves could be more fully utilized. This is valid reasoning only to the extent that the existence of more than one clearing bank prevents full utilization of resources; the choice is not between individual holding of reserves by each bank and a wholly new centralization, but a much less radical change, and one which would probably have little effect.

Legal reserve requirements have not been considered necessary as long as colonial banking systems were dominated by the British banks operating in the British banking tradition. The important point here is not whether the British banks are the largest or do the most business or even whether they dominate the market. The important point is whether conservative policies with regard to reserves are sufficiently general to insure sound banking practice in Malaya. The Exchange Banks Association is an organization which will probably help to foster such a tradition among newer banks, and its leaders are certainly trained in sound banking practice. But if legal reserves requirements were considered necessary for the general purpose of preserving the solvency of the banks, such could be imposed without the establishment of a central bank.[1] On the other hand, varying reserve requirements are part of a monetary policy, and while their administration would need the facilities of a central bank, the effectiveness of monetary policy administered by a central bank has surely been left in doubt by the preceding analysis.

A money market. One of the financial problems of an undeveloped area is that there is no money market, and the International Bank Mission hopes that the creation of a central bank will go far to its establishment. It is true that government bonds, denominated in local currency, have been sold, mainly to banks and to insurance companies, and that capacity of these institutions for holding local government securities under present conditions has probably been reached. Sales to the public have not been too successful. However, the presence of a rubber market in Singapore is not evidence that Malayans are ready and willing to buy local government securities if only their marketability is assured; in fact, it is evidence to the contrary. The rubber market grew without the need for a central bank because there was a demand for such a market. In Hong Kong, there is a well-established stock market, which deals in government securities, simply because there is a demand for such a market. Although Malaya is undeveloped in a certain sense, it is not primitive, and especially is it not primitive in money matters. If people in Malaya do not buy government securities or do not start a market in them, it is not because of the lack of a central bank.

A unifying factor. As has been stressed many times in this essay, the economy of Malaya must be regarded as one economy, and the danger of the present parallel political development is that this unity may tend to be obscured. But additional economic co-operation is required, not on the monetary level—that has obviously been achieved—but on the development planning level. That the International

[1]See, for example, Ordinance No. 15, 1952 of Nigeria which restricts banking business and controls cash reserves without a central bank.

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Bank Mission should have reversed this proposal and urged a central bank to undo the chaos which may result from their recommendation for separate planning institutions is symptomatic of the natural bias international bankers would have when examining such a problem.[1]

Sterling reserves. If a central bank were established, it could take over the sterling reserves of the banks and the government. This would mean that, although the banks would probably be allowed to maintain a sterling position, they would have to sell their sterling to the central bank every day, in much the same manner as they had to do in China after the establishment of the central bank and exchange control. It is hoped by the advocates of this reform that the outlook of the overseas banks will thereby be more Malayan. That is, since the banks would no longer have sterling assets to control and since all their assets would be Malayan dollar assets, is is hoped they would play a larger role in the development of the country than they have previously. This assumes that the opportunity for local investment of a sort suitable for banks does exist in Malaya and is not met by the banks because of the lure of London. It is not evidence to state that the overseas banks do not invest in the same proportion to their assets that a local Malayan banking institution invests. That is simply saying that the two banks do not have the same investment criteria, and since banks are private institutions, presumably the criteria will not change suddenly. If a central bank were to hold the banks' sterling, the banks would lose a source of their income, since their financial activities on the London market would have no parallel in Malaya. Nor can long-term use be made of the sterling by the central bank, since the banks will require the sterling in the activities involving the finance of trade. Thus a source of income is lost to the banks, and there is no gain to the economy as a whole.

Balance of payments. It is true, however, that the central bank could make fuller use of the Area's sterling assets if they were all under the control of a discretionary authority, for example—but not necessarily—a central bank. Not all the bank's sterling assets are required on short notice; the currency fund is unlikely to be called upon for one hundred per cent. redemption of the note issue. The use of such reserves implies, however, two things: first, that the currency will no longer be 100% backed with the consequent fall in profits, and second, that the banks will no longer fear a sterling drain—that will be the problem of the central bank—the commercial banks will have only the local cash drain to fear. The loss of profits (or income) is especially important since development requires not only capital but also additional income to meet higher recurrent expenses. The second point introduces a problem new to the Malayan Currency Area—that of the balance of payments. Under the colonial currency board systems, balance of payments problems take the same form as bank liquidity crises, because the bank is liable to pay in a legal tender 100% backed by sterling.

If the sterling reserves of the Area are drawn on to only a 'slight degree', no balance of payments problem will result, and it is naturally the intention of everybody that management of the Area's sterling reserves by the central bank will not result in their dissipation or in exchange crises which would frighten the foreign investor. It has been the experience of many countries that no matter how good the intentions are at the outset, some crisis arises which seems to justify revision of whatever rules, laws, constitutional provisions, or advice of prudent bankers had established as a safeguard against too great a use of the foreign reserves. The Union Bank of Burma acts illustrate this problem. Under the first act in 1947, the currency

[1]International Bank Mission, *op. cit.*, pp. 168–169.

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system was under a currency board. The central bank then had the task of "purchasing and selling Government and other local authorities' securities". The second act in 1952 provided that the central bank should take over the current issue against which it was to keep foreign exchange to the value of 25% of the notes and coin in circulation. The President of the Union of Burma has the right to waive even this backing if the approval of Parliament is received within 15 days or 15 days after it meets again.[1] In 1952 the reserves of the Union Bank of Burma against the currency issue were 75%. This was, evidently, too tempting for a government in financial difficulties. When a responsible government has access to local banks, to the London market, and to its own revenues, there is surely no need to depend upon the assets of the currency fund or of the banks for current expenditure. China, Japan in the early days following the Meiji Restoration, the Philippines and Indonesia are other examples of Far Eastern countries which have allowed their foreign reserve position to deteriorate, necessitating controls on foreign exchange operations. Thailand is in a special position—it lost its sterling reserves due to its war-time role, but since then it has been gradually building up these reserves until it can again claim to be on some sort of sterling-exchange standard. This is not being done without recourse to very complex exchange regulations.[2]

The conclusion that such problems can be eliminated by the proper drawing up of a central bank constitution is politically naive.

The great fact about the Malayan currency system is that a Malay in a *kampong* can, if he has local currency, command the resources of the Sterling Area and, to some extent, those of the dollar area as well. Nowhere else in the Far East, except Hong Kong, is this true, and it is an advantage which should not lightly be thrown away. The great temptation of officials is, of course, to "conserve foreign exchange for development uses".

Here then is the great divide, which scientific analysis can never fully bridge. Those who claim that planned development must have priority over every other consideration will demand the right to control every asset of the country, and, therefore, the right to control the use of foreign exchange. There is no argument within the scope of this essay which could shake this conviction. Those who feel that some planning for development is necessary, but within the limits of resources which the government can command by taxation and borrowing, will realize that planning is not incompatible with free sterling exchange in the Malaya Currency Area. This is not a case for elimination of exchange control everywhere under every circumstance; it is only a case for free sterling exchange in a country which now has the resources for and is operating under a colonial sterling-exchange standard.

Problems of development. Development is important; it is natural that any country reaching the threshold of domestic autonomy should take stock of all its resources and plan, as far as possible, their full utilization. The capital assets of the currency funds and the sterling assets of the banking system are such resources and should be examined. The examination of the former was undertaken in the previous section, that of the latter in the findings above. Negative findings do not mean that development is therefore to cease—the various territories have development programmes for the next five years which explain in detail the method of finance.

[1] U Tun Wai, *Burma's Currency and Credit* (Calcutta: Orient Longmans Ltd., 1953), pp. 154–213.

[2] Vietnam and Cambodia had additional problems due to their desire to break out of the franc bloc. U.S. dollar assistance has so far prevented an exchange crisis.

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The new C.B.I. Development Corporation and the company formed in late 1955 to start exploitation of cacao are just two examples of new foreign investment, and more will no doubt follow, providing the political situation is such as to warrant it. Exchange controls and balance of payments difficulties will interrupt this flow of capital on which the progress of the Area still depends. The lack of exchange controls, which may mean the investment of Malayan capital elsewhere or the 'loss' of foreign exchange due to the repatriation of profits and foreign capital, is the normal consequence of such freedom. The former results, after all, in an income for the area which might well be greater than if the capital had all been invested—force-invested—locally; the latter loss is the consequence of receiving the benefits of foreign capital in the first place.

The problems of development in the Malayan Currency Area are not primarily monetary; they are real and range from the lack of *petits fonctionnaires* in North Borneo to the Emergency in the Federation. The vast untracked regions of Sarawak, the lack of education in the more remote areas of all the territories, the administration of the land laws in Malaya, the transportation difficulties—these are just a few random problems selected to remind the advocate of monetary reform that there are more pressing problems to be considered in British East Asia. Even the future of the basic rubber industry is unknown. Brunei does not lack funds, yet her development programme is well behind schedule. There the State Council has wisely decided to slacken the pace to allow the people of the State to absorb the progress being made and to allow them to participate, after training, in the physical development of the country.

Conclusion. There is no tradition of independent central banking in the Far East; inevitably and without exception central banks have become the agents of government inflationary finance. Mr. U, writing of the relationship of the central bank with the Burmese Government says, for example: "We must not imagine that the Union Bank has been giving in to the Government in spite of its being Government-owned. It has done so, we understand, under great pressure".[1] It has done so.

A central bank could, of course, gather statistics and advise the Government, but its other functions are either grossly over-valued under the circumstances or could easily be performed by some board or government department. It was once said about the proposed Commonwealth Bank of Australia, that,

> ". . . . If the Commonwealth Bank is to be worked on safe lines, I feel sure it will not come up to the expectations of its supporters, and if worked for political purposes, it must come to grief . . . . The proposed bank does not appear to cover any ground not already occupied by existing institutions and is certainly not called for by the public".[2]

While it is conceivable that the economic situation in Malaya might change, the development plans and the analysis of the International Bank Mission do not indicate this, and therefore the quotation seems most relevant. A country cannot become economically independent by creating an independent monetary system if that economy depends upon external conditions beyond the control of the authorities. The Malayan economy is, in fact, a dependent one; its monetary system should reflect this without prejudice to the full economic development which is essential for the raising of living standards of the people.

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[1] U Tun Wai, *op. cit.*, p. 173.

[2] Speech of the Chairman of the Colonial Bank of Australia, 1911, quoted in A. S. J. Baster, *The Imperial Banks* (London: 1929).

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ADDENDUM

When the research for this essay was originally undertaken in 1954, *merdeka* seemed many years away, and the emphasis was on the critical discussion of the monetary and banking system of Malaya within the framework of colonial-type government. The political status of the territories combined with the fundamental export-nature of their economies led one to the general conclusion that a central bank, although useful in a limited way, was not an essential change and was a potential instrument of over-ambitious monetary policy. Political independence, however, has some effect upon this conclusion. A central bank as the Government's advisor, banker, foreign exchange manager, and agent for currency issue might well be essential to a new government. In addition a central bank might help in the creation of a market for government securities, although its success in this field would depend upon the diversity of securities which the governments were willing to issue and the receptiveness of the banking system. The dangers of central banking, as pictured in the main body of this chapter, remain—the failure to realise that the fundamental nature of the economy cannot be changed by monetary measures and, secondly, that a bank cannot be expected to co-ordinate the economies of the two territories if basic agreement has not been reached in the economic field.

A survey of money and banking in Malaya would no longer be complete without mention, therefore, of the *Report on the Establishment of a Central Bank in Malaya*, published in mid-1956 by the two governments.[1] There is no opportunity provided here for a full, critical analysis of the report, which contains draft statutes for the proposed central bank, draft banking legislation, a commentary upon these, and a discussion of the problem of one central bank for Malaya or one for each territory. Two or three points discussed in the report have, however, particular relevance to this study. The first of these is the currency issue.

The report recommends the establishment of an Issue Department in the proposed central bank. This department would take over the assets and liabilities of the Currency Fund and, in general, would operate in much the same way as does the present Board of Currency Commissioners.[2] There are certain important changes, however. First, there are provisions whereby the sterling cover could be reduced by $300 million, approximately one-third of the current assets of the Fund, by buying Treasury Bills or securities maturing within 20 years issued by either of the Governments, including those denominated in Malayan dollars. This would not of itself impair the fundamental relationship between dollars and sterling, for the sterling cover is sufficient to insure that the dollar is convertible into sterling on demand, and the general revenue of the territories is still liable for support of the note issue. It is, however, an important change, because investment policy would no longer be a purely business operation in the hands of the Crown

[1] G. M. Watson and Sir Sidney Caine, *Report on the Establishment of a Central Bank in Malaya* (Kuala Lumpur: Government Printer, 1956). This report by a Bank of England expert and by the economic advisor to the Singapore Government respectively is the consequence of a recommendation by the International Bank Mission that such a study be made.

[2] The Issue Department would take over only those assets and liabilities of the Fund which remained after the withdrawal of the British Borneo territories. These territories have already decided that they will not share the fate of the Malayan dollar once the central bank is established but will initiate their own currency, no doubt drawing on the experience of Sarawak in the 1930's. This currency will probably be held at par with the Malayan dollar, at least as long as wise monetary policies prevail in Malaya.

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Agents, but would be a matter of conscious policy of the governments co-ordinated with their development programmes. $300 million is, however, but a fraction of the sum now required by the territories, and it should be obvious that the Currency Fund is not an unlimited source for development finance.

The Investment Portion of the Fund, as it is now called, would, under the new proposals, be divided into two sections: approved sterling securities to a sum not to exceed 30% of the assets of the Issue Department; and Malayan securities not to exceed M$300 million (this latter figure being subject to review every five years by a specially appointed government commission). However, to the extent that holdings of Malayan securities fall short of the maximum permitted, additional sterling securities can be held, and the maximum the Investment Portion may reach is approximately 63% of the total assets. The sterling securities must mature within five years, and thus the draft statutes also set limits to the amounts of long-term and medium-term securities which can be held, a provision which is in this one respect more rigid than the current regulations, and perhaps unnecessarily so.

The draft statutes also provide that the proposed bank shall sell dollars at 2-4.3-16*d.* and buy at 2-3.13-16*d.*, thus allowing greater fluctuation in the value of the Malayan dollar than at present. No reason is advanced for this change and, as argued in the main body of this essay, such a change is to be regretted. Such is the relationship of the dollar to sterling that exchange fluctions should be at the minimum compatible with maintaining an orderly exchange market. The present spread is quite sufficient for this purpose and any widening would add unnecessarily to the exchange risks involved in holding Malayan dollars or the cost of making transfers, and would encourage speculation. Although the banks once opposed the narrowing of the limits, they have been operating successfully under the present system, and there is no evidence that they desire a change—on the contrary, there is every reason to suppose that they do not.

The report has cut the Gordian Knot of profit distribution by recommending that allocation be made according to the contribution of each territory to the capitalization of the bank, i.e., 60% to the Federation, 40% to Singapore.[1] However, such an allocation would be made only after 'a sufficient reserve against depreciation of assets' had been made, a concept corresponding to the automatic transfer of 1% of the Fund's value from Income Account under the present system. Then, when provision has also been made for any exceptional expenditures, 20% of the excess of assets over the liabilities of the Issue Department would be transferred to the general revenue of the bank, the remaining 80% allocated as above to the two governments.

Turning now to the banking operations of the proposed central bank, it is obvious that it will become the Government's bank, that it will provide the Government with expert advice, will handle its foreign exchange, and will act as its agent in exchange control. Neither the Government nor the commercial banks need sell their present holdings of foreign exchange to the bank, however. This will both prevent large Malayan dollars holdings from being created and will allow the commercial banks to continue their operations on the London Market. The inter-bank market for sterling will continue in existence and dollar-sterling transfers will be affected as before, although the Central Bank will also be in the market.

[1]This compares with a 1954 profit distribution of 64.46% to the Federation and 21.59% to Singapore.

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Comprehensive banking legislation, modelled to some extent on the West African legislation, is designed to insure the orderly conduct of banking business rather than make possible monetary policy by regulation of bank reserves. The proposed central bank would have some duties with regard to the supervision of this legislation, for the commercial banks would be required to hold certain assets in the central bank.

The proposed statutes and the banking controls will tend to create a more unified banking system in Malaya. They will facilitate the establishment of clearing houses in Singapore and Kuala Lumpur and otherwise encourage co-operation. But it is not intended to change the basic nature either of the currency or of the banking system, and problems of development have not been, as they cannot be, solved by such legislation. The Malayan central bank as proposed in the report is modest in its goals and realistic in its appraisal of the real nature of Malaya's economic problems.

The report has not as yet been accepted by the governments. Since political unity in the Malayan peninsular is unlikely for some years to come, the relationship of Singapore to the Federation has yet to be ascertained. Until it is, it is difficult to decide upon approval of a central bank which would serve two territories. Unless economic co-operation is achieved, a single central bank would find itself in a very difficult position, unable to co-ordinate the activities of its two members at the monetary level. Although two central banks would be an unnecessary duplication and expense should the two territories co-operate and co-ordinate their economic activities, they might become a necessity should such co-operation fail to develop. It is obvious, however, that the economy of the Malayan peninsula is one economy, and failure to act on this basis cannot but result in lower standards of living for the people of Malaya, irrespective of the central bank plan finally adopted.

Oxford, England, 17th August, 1956.

Chapter 5

THE MONETARY SYSTEM OF HONG KONG

Comparisons

There is no need to repeat in this chapter the entire analysis relevant to colonial currency systems, at least to the extent that the monetary system of Hong Kong bears any relation to the systems of other colonies. At first glance, the similarities appear almost non-existent. There are no Currency Commissioners; the note issue is largely composed of the banknotes of three British exchange banks, and the Government currency issue is confined to one-dollar notes and subsidiary notes and coin. Yet basically, the relationship of the Hong Kong dollar to sterling is the same as that of the Malayan dollar to sterling.

Currency in Hong Kong is composed of the banknotes of the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, and the Mercantile Bank of India, and government one-dollar notes, which have unlimited legal tender status; and government subsidiary notes and coin, which have limited legal tender status.

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The banknotes still bear evidence of the fact that they were, at one time, redeemable for an equivalent amount of silver:

> The Hongkong & Shanghai Banking Corporation promises to pay the Bearer on demand at its office here FIVE DOLLARS or the equivalent in the Currency of the Colony, Value Received.

The presentation of such a note to the bank would place the bank under no obligation to do anything but pay the bearer legal tender for five dollars, i.e. hand the note back to him. As with the Malayan government currency note, the banknote is irredeemable paper backed by sterling. In Hong Kong, of course, the bank could give the bearer five government one-dollar notes—which bear no such promise to pay—but the bank would be under no obligation to do so.

While it is true that there is, in Hong Kong, no Board of Commissioners of the Currency, the banknotes are backed by sterling. A portion of the note-issue of each bank is backed by specifically-designated and approved sterling investments held for the bank by the Crown Agents and from which the bank earns an income. The rest of the note issue is backed by certificates of indebtedness, an asset of the bank and a liability of the Hong Kong Government. These certificates, which are non-interest-bearing, are sold to the banks against payment to the Hong Kong Exchange Fund of sterling and bought by the Government with payments made from the Exchange Fund to the banks—again in sterling. It is as if the Malayan Currency Commissioners' notes were sent to the banks as described in the other chapters, but, instead of issuing them, the banks substituted different coloured notes with their own names upon them and issued these to the public.

The Hong Kong Exchange Fund deals only with the note-issuing banks, and it is under no statutory obligation either to sell or buy the certificates of indebtedness on demand. It may hold foreign currencies in addition to sterling and there is no 100% reserve requirement. Here are certainly the basic requirements for monetary management, but the Exchange Fund works in practice in as automatic a fashion as do the currency boards. The potentials of monetary management have not been exploited, and it was never intended that they should be.

The government currency notes are backed by current accounts in the Hongkong and Shanghai Bank and by sterling and sterling securities. The Note Security Fund is separate from the Exchange Fund and is concerned specifically and exclusively with the accounts relative to the government note-issue. It differs from the Malayan Area Currency Fund mainly in the fact that there are no provisions for a 100% sterling reserve, nor are there complicated systems of accounts as described above—the income account, the Surplus Account with their inter-relationships. At least a portion of the Note Security Fund is kept in current account with the Hongkong and Shanghai Bank, rather than in sterling. The proportion of the Fund so kept could be a limited instrument of monetary policy, but it was not intended as such and has not been used for this purpose.

Until the 1952 Nigerian banking ordinance was passed, Hong Kong had as comprehensive a banking ordinance as is to be found in any British colony. The basic law is the Banking Ordinance, No. 2 of 1948, and banking is there defined as:

> ". . . the business of a bank engaged in the receipt of money on current or deposit account or in payment of and collection of cheques drawn by or paid in by a customer or in the making or receipt or remittances or in the purchase and sale of silver coin or bullion".

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Firms engaged in banking as defined must register with the Financial Secretary, pay an annual fee, which is currently $5,000, for a licence, and submit an annual balance sheet. The Governor in Council may disallow the request of a bank for the licence. At the end of 1954 there were 94 licensed banks (compared with 106 at the end of 1952) of which 26 were authorized to deal in foreign exchange.

As in the Malayan Currency Area, there are exchange banks in Hong Kong, foreign-style local banks, and native banks. The latter deal mainly with remittances to China or in gold and silver speculation. There is no post office savings bank; but the Hongkong and Shanghai Banking Corporation conducts the business of and is responsible for the Hong Kong Savings Bank, which is a department of the Bank and has branches in the Main Office, Kowloon, and Mongkok.[1]

Despite the number of banks operating in the Colony, the rural area, the New Territories, is not well served. Through the vegetable marketing and fisheries co-operatives, thrift societies are being formed, and there are two revolving funds, worth a total of just under H.K.$1 million, available for rural credit. Colonial Development and Welfare Funds have been allocated to assist fishermen in the purchase of diesel engines for their craft. The difficulty of starting a branch even in industrial Tsun Wan, where the textile industry is located, is increased by the inability of the banks to sell office space in any new building they constructed or even to be sure that the large industrial concerns would use the branch bank facilities. Exchange control formalities, proximity to shipping offices, and the general amenities of any 'downtown' centre make it mandatory that firms and banks have offices on Hong Kong Island. Thus, the presence of industry in the rural area has not hastened the coming of banks. The Hongkong and Shanghai Bank does, however, operate two offices on the Kowloon side, one at Mongkok, the other at Tsimshatsui, as well as at North Point on Hong Kong Island. Those Chinese banks friendly to the present Communist government in China hold accounts with and are generally considered to be subject to the Bank of China. The Hongkong and Shanghai Bank acts both as the Government's banker and as the clearing bank, holding in this manner large inter-bank deposits including one from the Bank of China itself. There is a Hong Kong clearing house association with 25 members, which handled in December, 1952, total clearings of $1,243,574,292.00. There is no central bank in the Colony.

Hong Kong is a member of the Sterling Area, but, as was stated in a previous chapter, an open market within the Colony, designed primarily for the purchase and sale of U.S. dollars is tolerated. The market dealing in gold of ·95 fineness or over, which operated in the Colony until 1949, was closed as it was considered incompatible with the United Kingdom's membership in the International Monetary Fund.

The differences which exist between Hong Kong's currency system and that of the Malayan Currency Area are more easily understood in historical perspective.

Historical Notes

Silver versus sterling. The first unit of account in Hong Kong was the dollar, represented by the Mexican Dollar and 'other Republican dollars'. Sir Henry Pottinger issued two currency proclamations in 1842: the first fixed the legal tender value of the dollar in terms of rupees and cash for purposes of bazaar transactions; the second declared that the Mexican and other republican dollars

[1]For the history of this bank, see below, pp. 105–106.

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were to be legal tender or current coin for all mercantile and government transactions.

In 1845, following an 1844 Order in Council, Sir J. F. Davis, Governor of the Colony, declared sterling to be the unit of account and fixed the value of dollars, cash, and East India Company rupees and gold mohurs in terms of sterling. The gold, silver and copper coins of the United Kingdom were to circulate within the Colony, despite the fact that gold had never been a circulating coin in China and that the Chinese in Hong Kong accepted silver coins by weight making it impossible for them to consider the token silver coin of the United Kingdom. The businessmen of the Colony are reported to have received the 1845 proclamation with "bland astonishment".

The attempt to establish the Colony on a gold standard was not successful. An 1853 proclamation to the effect that silver was to be legal tender in the Colony to amounts of $10 only was a dead letter following a decision of the Chief Justice that "when contracts were made in dollars, payment must be made in such coins . . .". The Colonial Treasurer refused to accept sovereigns in payment of rents from Crown leases, and in the confusion the dollar unit of account was, except for official government accounts, maintained. The introduction in 1857 of Australian sovereigns as legal tender affected nothing.

Sir Hercules Robinson, then Governor of the Colony, was successful in convincing the Home authorities that a gold standard currency was not suitable for Hong Kong. In 1862 all accounts of the Colonial Government were kept in dollars for the first time. In 1863 a declaration was made of the Government's intention of returning to the silver standard as soon as practicable, and the legal tender status of silver dollars was officially restored. There was a fear that dependence upon a foreign coin might prove an embarrassment should the minting of the coin cease or its silver content be debased; final acceptance of the silver standard was, therefore, delayed until 1865 in anticipation of the opening of the Hong Kong mint in 1866.

The short-lived Hong Kong mint coined some 2,108,054 British dollars—or 'Hong Kong' dollars as they came to be called following the minting of a similar dollar in Calcutta and Bombay after 1895—but the new dollar coin was not at first a success and passed at a 1% discount. The Chinese were restrained from defacing the British dollar with its picture of the Queen, and this was at that time contrary to ordinary mercantile practice—the custom of accepting coins mainly on the basis of their silver content. The mint closed in 1868 and the machinery was sold to Japan, where it was used to establish the first modern mint in that country. The Japanese silver yen, a silver coin similar to the British Dollar and the Mexican Dollar, was soon current in East Asia.

The story of the silver dollar is concluded by mention of the 1895 Order in Council and the Hong Kong (Coinage) Order of the same year which added the new British dollar mentioned above to the list of legal tender coins in the Colony. By 1935 this dollar, together with the once-despised Hong Kong-minted dollar, had practically superseded all other types of dollars, including the famous dollar Mex, which remained legal tender in Hong Kong until the abandonment of the silver standard in that year.

Paper Money. Banknotes had long before this replaced silver in most commercial transactions of any size. The inconvenience of silver and the conservative regulations governing the issue of banknotes were factors sufficiently important to

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override the fact that banknotes were not legal tender. As in Singapore, the Oriental Bank issued the first notes, $56,000 in 1845, the very year in which Hong Kong was supposed to change its unit of account from dollars to sterling. The Chartered Bank of India, Australia and China and the Chartered Mercantile Bank of India also issued banknotes under the terms and conditions of their charters.

By Ordinance No. 2 of 1866, the Hongkong and Shanghai Banking Corporation was organized with the right to issue banknotes. Initially the right was limited to an amount not to exceed the value of the bank's paid-up capital. While this would then have been sufficient to meet the currency needs of Hong Kong, the bank did not, as has been shown, limit its issue to this Colony. The result was that in 1898 the bank had overissued, and an excess issue was allowed. The original or 'authorized' note issue could be backed in part by approved securities and in part by the assets of the back in general, i.e., a fiduciary issue. The excess issue had to be backed by 100% in silver coin or bullion, and this distinction between the authorized and excess issues continues to the present day.

The size of the note issue in Hong Kong is seen from the following table:[1]

Local Note Issue in Hong Kong

(*Hong Kong dollars*)

Bank	1881	1891
Oriental	807,133	0
Chartered Mercantile	649,568	1,438,745
Chartered	589,388	1,382,665
Hongkong and Shanghai	1,640,290	3,078,447
	3,686,379	5,899,857

Source: Chalmers, *op. cit.*, p. 380

When, in 1895, Ordinance No. 2 limited banknote issue to banks specifically authorized to do so by Royal Charter or local ordinance, the note issue was restricted thereby to the Chartered Bank and the Hongkong and Shanghai Bank—the Oriental having closed its doors and the Chartered Mercantile having reorganized. The Mercantile Bank Note Issue Ordinance, No. 65 of 1911, restored the note-issuing privileges to the reorganized bank.

Banknotes were issued in denominations of $5.00 or multiples thereof. From 1872 to 1884 the question of a one-dollar note issue for Hong Kong seems to have attracted the attention of important figures in British political life from Lord Derby to Sir Michael Hicks-Beach.[2] The closing of the Hong Kong mint, the Chinese practice of 'chopping' silver dollars to certify their fineness, and the rumoured cessation of the minting of dollars Mex caused fears that the shortage of coin for small transactions already felt in 1872 would grow more serious. Standing colonial regulations forbade the colonial authorities the granting of permission for the issuance of banknotes in denominations of less than £1 sterling equivalent. The Governor of Hong Kong, using his emergency powers, authorized

[1]See also E. J. Eitel, *Europe in China, The History of Hong Kong* (Hong Kong: Kelly and Walsh, Ltd., 1895).

[2]Hong Kong Government. *Correspondence Respecting the Issue of One-dollar Notes*. Gladstone is reputed as favouring the one-dollar note issue.

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the Hongkong and Shanghai Bank to issue a limited amount of one-dollar banknotes to alleviate the currency shortage. $226,000 worth of one-dollar banknotes were, in fact, issued.[1]

The British Treasury, disapproving of the Governor's action, pointed out to the Colonial Office that small notes are held by 'classes least educated' and that these classes were more liable to panic with accordingly greater risk to the note-issuing authority. The Lords of the Treasury suggested a general reformation of the Hong Kong currency. The Governor described the difficulty of such reform in a Colony whose trade and monetary customs were tied to those of China, but Hicks-Beach suggested the use of the Japanese yen or the American trade dollar as a means of eliminating the alleged currency shortage.

Following the submission by the Governor of evidence that businessmen of the Colony were encountering difficulties due to their inability to obtain small notes, the Secretary of State indicated that he preferred, if one-dollar notes were inevitable, that the Government should issue them, and the Hongkong and Shanghai Bank undertook conditionally to withdraw its one-dollar notes from circulation dependent upon the Government's final decision. In 1884 Lord Derby informed the Governor that the principle of government one-dollar notes with 100% backing in specie had been approved. The Hong Kong Government did not find it necessary to make use of this authority until 1935, and in that year the Hongkong and Shanghai Bank withdrew its issue.

The question of the one-dollar issue came up during the debate on the Mercantile Bank Note Issue Ordinance of 1911, when an unofficial member commented that the ordinance "has no reference to the issue of one-dollar notes". The Colonial Treasurer replied, "The authorities at Home will not allow notes under five dollars. A mistake was made in allowing the issue of one-dollar notes in the first instance".[2] It would appear as if the crisis of 1872-1884 had not been as serious as at first supposed, and as the Governor noted in the debate, the Mercantile Bank had not even requested permission to issue one-dollar notes.

Hong Kong banknotes, especially those of the Hongkong and Shanghai Bank were current throughout South China. Since 1949 such banknotes have been returned, after service as the only stable currency during the periods of revolution and civil war and during the more recent depreciation of the *fapi* and gold *yuan* of the National Government. British dollars were exported to North China and circulated there, but by order of the Governor in Council in June, 1922, an embargo was placed on the export of all silver dollars, other than Chinese, from the Colony. The result was to make Hong Kong dollar banknotes the basis for all exchange and business operations. In 1929 the Hong Kong banknote passed at a premium in relation to the silver dollar, until the exchange rate passed the silver import point. This situation was caused by the tendency of the public to expect an increased note-issue rather than an import of silver and by the unwillingness of the Hongkong and Shanghai Bank to expand its note issue on terms which required the payment of a 1% duty on all outstanding notes; and by this unwillingness alone a 20% premium on banknotes together with the unnecessary and

[1]The Hongkong and Shanghai Bank undertook to withdraw the offending issue in return for permission to establish branches in Singapore and Penang, *providing* the Government issued one-dollar notes. Actually the Government did not act until 1935—and then for quite different reasons—but so small a note circulation could have little effect upon the economy.

[2]The 1939 charter of the Chartered Bank specifically adds the right to issue one-dollar notes, presumably because even then there was a possibility of the Government discontinuing its issue of government notes.

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expensive importation of silver resulted. As the bank makes no profit on the excess note issue, the Government decided to levy duty on the first $45,000,000 worth of Hongkong and Shanghai banknotes only.

Savings banks. The Victorian Age of self-help and thrift reached Hong Kong in the early 1880's in the form of pressure on the Post Office to form a Savings Bank. Although the Postmaster-General claimed that Hong Kong was a sort of Clapham Junction for ships and that he was consequently overworked, by 1884 he had agreed to operate such a bank—two days a week. A bill to authorize this was introduced into the Legislative Council but was withdrawn before the second reading as the Hongkong and Shanghai Banking Corporation had offered to operate a Savings Bank, open daily and paying interest rates of 3½%. To quote the Postmaster-General's Report for 1884:

> "This offer [of the bank] was accepted. Its main advantage is that the Bank is open every day, instead of two days a week only, and that depositors who have $100 to credit at once open a banking account and increase their deposits indefinitely. Against this may be set the fact that the deposits are not secured by the Government, but this would seem to have been no obstacle to the success of a Savings Bank at Shanghai, and need not be here".

Although the bank had the authority, implicit in its incorporating ordinance, to operate a savings department, the Government decided to give the Savings Bank operations certain advantages—free mailing privileges and exemption from stamp duty—which could only be awarded by additional legislation. Ordinance 10 of 1884, designed "to facilitate the business of Savings Banks", gave these privileges to any savings bank the rules of which were approved by the Governor in Council and published in the *Gazette*. The savings department of the Hongkong and Shanghai Bank was called 'The Hong Kong Savings Bank' and the rules were duly submitted and approved. As published in the *Gazette* they stated that "the assets of the Hongkong and Shanghai Banking Corporation will form a direct security for the repayment of sums deposited in the above Bank". A special provision was included for small savers, who could obtain a form from the Bank and affix clean ten-cent postage stamps until one dollar had been saved. The dollar would then be credited to the saver's account in the same way as in British Post-Office Savings Banks. The Postmaster-General commented:

> "It can hardly be said that it was hoped to introduce more thrifty habits amongst a certain class of our younger fellow-citizens, but it was felt that at least the attempt should be made. Whether, however, pocket-money is not a Hongkong institution, or whether other attractions are too strong, certain it is that the ten-cent system of saving does not seem to take hold of the young here as the penny system does in England. Only $65 has been thus collected since the Bank was opened".[1]

Provisions for free postage from any British post-office in China or Hong Kong and exemption from stamp duty were included in the published rules. Deposits from China could be made in the form of clean postage stamps of any value.

In May of 1885 the enabling ordinance was disallowed by the Secretary of State, and the Bank then published revised rules for its Hong Kong Savings Bank, which excluded the comment on the nature of the security of the funds deposited in the Bank and any reference to exemption from stamp duty. Free

[1] 'Annual Report of the Postmaster-General of Hong Kong, 1884'.

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mailing privileges were still allowed, however, and the authorization was incorporated into the postal regulations. The Hong Kong Savings Bank continued to operate as a private bank, in effect a department of the Hongkong and Shanghai Banking Corporation, the 1929 regulations of the bank, paragraph 3c, stating specifically that one of the objects of the bank shall be "to carry on the business of a savings bank in all branches of the business". The statistics of the savings bank, which in 1933 opened a branch in Kowloon, were printed in the Government *Blue Book* on a form standard for the colonies. Since World War II, however, the *Blue Book* has not been published, and the figures do not appear in the statistical supplement of the *Gazette*. In 1938 there were, in the Hong Kong branch, 19,770 depositors and a total of $13,552,977.99 on deposit at an interest rate of 2½%. The figures for the Kowloon branch were 3,017 depositors and $1,899,930.16 on deposit.

Although other banks in Hong Kong provide facilities for small savers, the Hong Kong Savings Bank remains in a separate category and is the only institution receiving a special but now unusual privilege.

Prelude to reform. The committee on Hong Kong currency published its report in 1931 and commented on the important position the note-issuing banks held in the Colony.[1] The main purpose of the Committee was, however, to examine the relation of the Hong Kong dollar to sterling and silver. Fluctuations in the price of silver during the 1920's had made it necessary for the Colony to weigh again the relative merits of tying the dollar to sterling or continuing with silver as a necessary cost of holding the China entrepot trade. A 1930 Hong Kong committee had already found that "as long as China linked her currency to silver, so long must it be advantageous to the Colony to do likewise". The Parliamentary committee agreed in general, and devised a scheme whereby the cost of a silver standard might be minimized. This included making banknotes sole legal tender, the nationalizing of the silver held against the note issue, and the holding of certificates —the equivalent of the later certificates of indebtedness—in lieu of the actual silver. Silver coin would be used as a subsidiary money, and banknotes would be redeemable in minimum amounts only. The Committee also proposed the setting up of a Currency Board to handle the silver reserve, part of which would be held in sterling, forming the basis for any subsequent stablization of the dollar with sterling.

These recommendations were never acted upon, although many of the ideas were obviously incorporated in the 1935 reforms. The generally accepted conclusion was that Hong Kong must continue to have close monetary relations with China. Either the exchanges would fluctuate between Hong Kong and London or between Hong Kong and Canton, and there were no facilities for buying sterling forward with Canton currency. China itself was considering a gold standard currency, the so-called 'Sun' currency, and that, of course, would have solved Hong Kong's problem. In actual fact, China did not go on gold, solving the problem of depreciating silver by the establishment of the Customs Gold Unit, at first a purely imaginary money or unit of account representing a fixed amount of gold and in which customs duties were valued.[2]

The Crisis of 1935. The London price of silver collapsed in 1920 and declined steadily from 1925 until 1931. As China remained on silver, this falling price

[1] *Report on the Hong Kong Currency*, Cmd. 3932 (London: H.M.S.O., 1931).

[2] F. H. H. King, 'Essays in China's Recent Monetary History. I. The Customs Gold Unit', *Far Eastern Economic Review*, XVI (11th February, 1954), pp. 176–178.

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stimulated her exports at a time when the rest of the world was beginning to suffer from the serious trade depression which followed the 1929 crisis in the United States. As China prospered, so did the entrepot port of Hong Kong. Until 1931 silver flowed into China, but political disturbances in Shanghai and Jehol Province, a decline in the remittances from oversea-Chinese, and the general trade depression terminated China's brief period of prosperity. By 1933 there was a net export of silver from China. This trend was encouraged by the London Agreement of 1933 and by the United States Silver Purchase Act of 1934, both designed to 'do something' for silver, i.e., raise its price. The 1934 customs returns show a silver export of $256,728,000 Chinese currency, exclusive of silver smuggled out to avoid the payment of the export tax. Then, on 3rd November, 1935, the Chinese Ministry of Finance issued a decree changing the traditional basis of China's currency. Effective the following day, China was to have a managed exchange-standard currency; banknotes would be full legal tender.

Hong Kong was, of course, directly affected by these monetary changes. Silver passing through the Colony from China to London and New York was subjected to speculative transactions which caused violent reactions in the exchange rate on London. The sterling rate in January, 1935 was, for example, 1/8½; in April, 2/6; and in December, 1/3⅜. The early rise had been due to the increased demand for silver on the London market, and the later fall to the action of speculators buying sterling against a possible change in the United States silver purchase policy and the rumoured currency intentions of the Chinese Government. Hong Kong even failed to maintain its exchange stability with China, since the latter did nothing to support the external value of the Chinese dollar, and in October, 1935, the Hong Kong dollar was at a 45% premium. During the first six months of 1935, the Colony exported $24,156,038 worth of silver bullion and specie; during the second six months, $150,661,908. Most of this represented re-exports, since the Colony's silver was mainly in the form of reserves against the note issue, but what free silver was in existence was exported. Coins were melted down and there was a shortage of circulating media.

The time had come for reform, but reform consistent with the historical monetary relationship of the Colony to China. As the Treasurer of the Colony wrote in his 1936 report:

> "The adoption of a managed currency in this Colony is a concession to the accepted principle that Hong Kong is bound to China in its currency policy, in so far as any wide divergence of the Hong Kong dollar from the Chinese dollar means a dislocation of trading facilities."

The first reform was actually the direct result of a shortage of small coin—the predictions of 1872 had finally come true, though for different reasons. The Dollar Currency Notes Ordinance, 1935, was issued in November, and authorized the Treasurer to issue and reissue one-dollar currency notes in the Colony. "Such notes", the Ordinance continued, "shall be legal tender for the payment of any amount". Compared with the complicated provisions surrounding currency funds which are to be found in the ordinances of the Malayan Currency Area, the following is simplicity itself:

> "4. The Treasurer shall establish a note security fund into which he shall pay all monies he receives for such currency notes. The fund shall be held on deposit at one or more banks in the Colony and shall be available for withdrawal from circulation of such portion of the issue of the said currency notes as the Treasurer may from time to time deem it desirable

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to withdraw: provided that a portion of the fund may lie temporarily invested at the discretion of the Treasurer".

The principle of an investment portion and a liquid portion are in this brief paragraph. The provisions allowing for the deposit of funds received in the banks, including local banks, reflects the fact that the note issue was considered as a temporary measure to counter a temporary shortage of coin. It was expected that large notes would be exchanged for many small ones, that is, despite the unlimited legal tender provision, it was expected that the one-dollar note would be a subsidiary note and that it would not be through the issuance or cancellation of such notes that the money supply of the Colony would be affected.

The second reform, the Currency Ordinance, 1935, gave Hong Kong *de jure* a managed currency, but the Exchange Fund which this act established has always been handled as a Currency Fund with sterling assets, and therefore, it is true to say that the Currency Ordinance put Hong Kong on a *de facto* sterling-exchange standard. The Ordinance made banknotes legal tender; it provided for the surrender of the banks of all silver coin and bullion held against the existing note issue in return for certificates of indebtedness; additional issues were to be made against the purchase of further certificates; and it provided for an Exchange Fund to be established with the assets so taken over.

The Ordinance provided that the Exchange Fund, which was to be managed by the Treasurer on the advice of an Exchange Fund Advisory Committee, might hold Hong Kong currency, any other currency, or gold and silver, or might be invested by the Treasurer in securities approved by the Secretary of State.[1] In addition to assigned assets, the Fund could draw on the General Revenue Balance of the Colony, kept mainly in sterling funds, and could borrow up to a maximum of $30,000,000 in Hong Kong funds. It was, therefore, fully equipped to act as its Chinese counterpart, as an equalization fund. It did not do so, but the Colonial authorities were uncertain as to the course of events, and were prepared for any pressure on the exchanges. A final provision of the Currency Ordinance was the nationalization of silver, followed two years later by the demonetization of any dollar coins not previously surrendered.

In December, 1935, when the Fund was established, the exchange rate was 1/3⅜ and it was decided to stabilize the dollar at approximately this level. In 1936 the rate varied between a high in April of 1/3·609, and a low in October of 1/2·798. According to the Treasurer's report, 1937 was the "first year in which our managed currency has functioned free of speculative interests".

The Hong Kong dollar was related to sterling in a fashion similar to that of Malaya by undertakings of the Exchange Fund made public in September, 1939, and of the note-issuing banks made informally and privately, undertakings which have no statutory status. The Exchange Fund agreed to sell sterling to the three note-issuing banks at 1/2 13/16 and to buy at 1/3, and the note-issuing banks agreed to do business on the inter-bank sterling market within a range which gave themselves 1/32nd of a point margin when dealing with the Exchange Fund. Today's rates have been narrowed: the Fund sells at 1/2⅞ and buys at 1/3; the note-issuing banks operate on the inter-bank market within the limits 1/2 27/32 and 1/3 1/32.

[1]The duties of the Treasurer are now divided between the Financial Secretary and the Accountant-General.

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The liquidity position of the Exchange Fund as of 30th June, 1937 was as follows:

Gilt-edge sterling securities	62·7%
Cash or money on call at short notice	35·91%
Silver	1·12%

Total Assets: £10,316,240

The position in June, 1939, the last published report on the Fund, was as follows: Assets of £13,226,195 against certificates of indebtedness issued to the banks of £11,907,554. This strong position was weakened after the war by the transfer of liabilities from the Hongkong and Shanghai Bank to the Fund, connected with the recognition of the 'duress note issue' to be discussed below. The Fund had largely recovered in 1948 when there were £44,284,767 in certificates outstanding to sterling assets of £44,253,507; by now assets must exceed liabilities.

After World War II. Hong Kong was a member of the Sterling Area and during the war subscribed to the currency restrictions appropriate to the area. When the Government was restored in Hong Kong after the war and before the Exchange Banks could begin operation, an open market had been established in the Colony. It was decided that, providing the market did not afford a leak for sterling-area U.S. dollar reserves, or provide a source of cheap sterling, such an open market would encourage the revival of the Colony's entrepot trade by compensating for divergent cross-rates, and should, therefore, be allowed to continue.

When the Japanese captured the Colony, they had found printed, but not issued, banknotes of the Hongkong and Shanghai Banking Corporation. During the Occupation these notes were issued by the Japanese, and, since they were not legally issued, they were not, from the point of view of the Hong Kong Government, either legal tender or money. At the request of the Colonial Office, Free China Radio in Chungking broadcast warnings to the people of Hong Kong that the banks would not recognise these illegally issued notes. The people of Hong Kong and South China held these notes at their own risk, and for a time they passed at as much as a two-thirds discount. Despite these warnings, after the war the banks, in agreement with the Government of Hong Kong, decided to honour its Japanese-issued notes. This was the origin of the unbacked 'duress issue'.

The total duress issue amounted to some $119,800,000 and by law required, as soon as it was declared legal tender, 100% backing in Certificates of Indebtedness. The Bank Notes and Certificates of Indebtedness Ordinance No. 13 of 1946 (cap. 247) provided that Certificates would be issued to the bank for $103,800,000 and that the bank would pay to the Exchange Fund the sterling equivalent of the duress notes which had been used by the Japanese liquidators to pay off liabilities of the bank and an additional $16 million. It was also provided that further certificates would be issued annually to the bank in a certain proportion to the net income of the Exchange Fund until certificates to an additional value of $16 million had been issued in this way. The exact proportion to the net income of the Exchange Fund in which certificates would be issued equalled the percentage that 16 is of 119·8—(16 + x), where 'x' is the amount of duress notes actually used to meet the legal obligations of the bank.

While these certificates were being issued, the Hongkong and Shanghai Banking Corporation Ordinance (Cap. 70) was amended so as to increase the bank's authorised issue by $16 million to $46 million, and the bank deposited eligible securities with the Crown Agents as cover for this additional amount. The issue of

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certificates was completed in 1953, and the authorised issue was reduced again to $30 million.

Legal Tender in Hong Kong

The Annual Report of the Colony for 1954 states that of a total currency supply in nominal circulation on the 31st of December, 1954, amounting to $770,851,923, the banknotes amounted to $727,490,640, the Government one-dollar note issue to $26,891,500, and subsidiary notes and coin to $16,469,783. Hong Kong is is perhaps the only political entity of economic significance where the issuance of the largest percentage of its legal tender is the responsibility of privately controlled commercial banks. This situation requires some detailed examination.

The apportionment of the bank note issue among the three note-issuing banks on 31st December, 1954, was as follows:

Mercantile Bank of India	$4,447,225
Chartered Bank	41,373,271
Hongkong & Shanghai Bank	675,742,000

These notes were issued under the authority of the various ordinances and Royal Charters as amended which have been promulgated from time to time and which provide varying conditions and regulations for each bank. These must be studied separately.

Mercantile Bank of India. Under the provisions of the Mercantile Bank Note Issue Ordinance, No. 65 of 1911, the Bank may issue, reissue, and circulate notes in the Colony up to but not exceeding a face amount equal to the paid up capital. Before 1935 these notes were backed by 105% reserves in the form of authorised securities, held by the Crown Agents, or, at the discretion of the Bank, by 100% reserves in coin or bullion, or by some combination of the two. The coin and bullion backing was held either by the Crown Agents or by the Treasurer. With the nationalization of silver these provisions were changed to allow the substitution of certificates of indebtedness for silver coin and bullion.

The note issue of the Mercantile Bank is only ·5% of the issue of Hong Kong banknotes. The accounts dated 31st December, 1954, show:[1]

Notes in circulation against Security per contra . . .	£273,450

The backing for these notes is given as follows:

Investments (Quoted Investments at or under market value. . .) British, Dominion and Colonial Government and Other Securities (including £265,000 British Government Securities deposited against Note Issue): Quoted in Great Britain .	£9,875,703
Hong Kong Government Certificates of Indebtedness deposited against Note Issue	£105,605

The total backing for the note issue of £273,450 was, then, £370,605 a sum considerably in excess of the amount legally required.[2]

Chartered Bank of India, Australia and China. There is no local legislation relating specifically to the note issuing power of the Chartered Bank, rather its rights are

[1] In Malaya all accounts are kept with the official exchange rate of 2/4. In Hong Kong that rate is 1/3. This accounting procedure requires a net item for exchange loss or gain at the end of any accounting period. For the purpose of the Bank's annual report as it refers to the Hong Kong note issue, the value of that issue is simply translated into sterling at 1/3 and no further correction is necessary. The accounts of the Mercantile and Chartered Banks are kept in sterling.

[2] A small portion represents backing for unredeemed notes still outstanding in Shanghai, Malaya, etc. The same is true for the other note-issuing banks.

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defined in the Bank's original charter of 1853 as amended in 1897, 1922, and 1939. The Charter as amended in 1897 authorised an issue of banknotes to the amount of $8 million with a backing of a one-third reserve in coin, bullion and/or approved securities to be held by the Crown Agents. The Bank was, and still is, in a position to issue $5⅓ million without any specific technical backing, i.e. a fiduciary issue; a revision of the Charter is now under negotiation which may eliminate this anachronism.

Current provisions for the Bank's note issue are as follows: for the first $8,000,000, one-third backing in securities and/or certificates of indebtedness; from $8,000,000 to $30,000,000, a 100% backing in either securities or certificates of indebtedness or a combination of the two[1]; and over $30,000,000, a 100% backing in certificates of indebtedness; providing that one-third of all funds deposited shall be certificates of indebtedness. The effect of this last clause is to prevent the bank from taking full advantage of the provisions for holding securities as opposed to Certificates until 42⅔ million worth or more of notes have been issued. Banknote duty of 1% per annum is paid on every note up to a maximum of $42,000,000.

The 1954 balance sheet of the Chartered Bank shows the following entry:

Notes in circulation against Security per contra . . .	£2,902,313

The offsetting assets were as follows:

British Government Securities at Market Value (quoted on the London Stock Exchange) lodged against Note Issue .	£1,791,305
Hongkong Government Certificates of Indebtedness for surrendered coin lodged against Note Issue . . .	£1,098,028

This gives a total backing of £2,889,333, which exceeds the liabilities arising from the note issue. The Bank is not, at the present time, taking advantage of its right to a fiduciary issue.

The Hongkong and Shanghai Banking Corporation. Permission for this bank to issue notes dates to 1866, but the current provisions depend, with amendments, upon the Hongkong and Shanghai Bank Ordinance, No. 6 of 1929, or Chapter 70 of the *Laws of Hong Kong.* The Bank is now permitted to make, issue, and circulate notes of the Bank payable to bearer on demand at the place of issue and in coin legally current at such places—using the terminology of the 1929 Ordinance issued before the nationalization of silver. The stockholders have unlimited liability for the note issue, a provision absent in the case of the other banks, but the backing of the note issue is in all cases available to meet the note issue liability before any other.

The note issue of the Hongkong Bank is divided into two main categories, the authorised and the excess. The former is limited to $30,000,000, for which a backing of $23,333,333 in certificates and/or approved securities to be held by the Crown Agents is required. Thus part of the authorised issue, $6,666,667, may be without specific backing. The excess note issue consists of all those notes above the $30,000,000 limit, and requires a 100% backing in the form of certificates of indebtedness. These regulations differ from those applicable to the Chartered Bank on two counts: first, the Chartered Bank charters do not use the term 'excess issue' for notes over $30,000,000, although the provision for the backing of these notes is the same; and second, the backing of notes up to the $30,000,000 limit is so arranged that the Hongkong Bank could enjoy a larger fiduciary issue if it so

[1]This was the limit set by the 1922 revised Charter.

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desired. Actually, the Hongkong Bank has more than the required backing for its notes as is shown in the 1954 balance sheet:

Hong Kong Currency Notes in Circulation	
Authorised Note Issue	$30,000,000
Excess Note Issue	$645,742,000
The offsetting assets are:	
Hong Kong Government Certificates of Indebtedness issued in respect of funds deposited as security for the Excess Note Issue	$645,883,047
Investments, at under market values: British Colonial and Other Government Securities (including $41,865,200 deposited as security for the Authorised Note Issue): Quoted in Great Britain	$276,964,012

This is a total backing of $687,748,247 for a note issue of $675,742,000.

Banknotes—general. The excess of certificates held by the banks indicates the extent to which they can expand the nominal circulation of currency without recourse to the Exchange Fund, but this is of little interest to the economist. The cash reserves of a Hong Kong note-issuing bank actually held in Hong Kong consist of government currency notes, banknotes, and certificates of indebtedness. An increase in the nominal circulation of banknotes may indicate a change in the bank's policy or give some indication of the bank's future policy, but in itself it does nothing but increase the bank's liabilities and assets by the same amount. The money supply is not affected. The more important question is concerned with the locality of the bank's cash reserves—Hong Kong or London—for reasons discussed above in relation to the banking system of Malaya.

The Hongkong and Shanghai banknote issue is of such relative importance in the Colony for several reasons. First, the bank is the largest bank in the Colony with the primary interest in the business of the Colony. Second, the other note-issuing banks were restrained by the limiting provisions of their Charters or enabling ordinances, and the Chartered and Mercantile banks had large interests elsewhere. Too much importance cannot be given to this factor, however, since experience has shown that whenever a note-issuing bank reached the limit of its issue, the relevant regulations were changed in its favour. All the note-issuing banks were required to deposit 100% bullion backing—later certificates of indebtedness—so that a large note-issue was equally unprofitable. Perhaps the most important reason lies in the fact that the Hongkong and Shanghai Bank is the clearing bank in the Colony, and as such does not hand out to the public the banknotes of other banks.

When a customer makes a deposit with the notes of either the Chartered or the Mercantile Bank, the Hongkong Bank stores them until a customary number are on hand or until the issuing banks call for them. They are then returned to the issuing banks, and the interbank account with the Hongkong Bank debited accordingly. When either the Chartered or the Mercantile Bank need banknotes to issue to their customers, they have the choice of issuing their own notes or those of the Hongkong and Shanghai Bank.

Banknote duty must be paid on all notes issued up to a certain specified amount—the Mercantile Bank on its entire issue, the Chartered Bank to $42,000,000 and the Hongkong Bank to $45,000,000. Notes actually in the hands of the issuing banks,

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however, are not liable to duty. The Hongkong and Shanghai Bank always has more than $45,000,000 in circulation outside the bank itself, but the other two banks daily transfer their own notes from listing as 'cash in hand' to 'notes on hand', avoiding duty on the amount so transferred. From the point of view of the economist, this has no significance.

The Government note issue. The one-dollar note issue was intended to replace the silver dollars which had been melted down or which had been surrendered under the provisions of the 1935 Currency Ordinance. The notes and assets became part of a newly established 'One-Dollar Note Security Fund' administered by the Treasurer of the Colony.[1] The notes themselves are actually issued—in the physical sense—by the Hongkong and Shanghai Bank, and therefore, the issue of an additional one-dollar note increased the current account of the Note Security Fund with the bank.

The situation is best illustrated by example. If a member of the public presents a $10 banknote of the Hongkong Bank to that bank and requests ten one-dollar notes, the following would take place in principle, on the assumption that the Hongkong Bank does not have any one-dollar notes in its 'cash on hand', i.e. notes that have actually been legally issued. The current account of the Note Security Fund would increase $10—a liability of the bank offset by an increase in 'cash in hand' to the amount of the $10 banknote. The One-Dollar Note Security Fund account would show an increase in liabilities of $10, offset by an increase in assets, in the form of a current account with the Hongkong and Shanghai Bank, by $10.00. The money supply has not, of course, changed.

It was never intended that net changes in the money supply should be effected through the one-dollar note issue and its security fund.[2] Transactions which are comparable to dealing in Malaya with the Currency Commissioners are made through the Hong Kong Exchange Fund and not through the Note Security Fund. As a potential of monetary policy, however, the note security fund could play a minor role, for as it stands the government one-dollar note is in part backed only by accounts with the Hongkong and Shanghai Bank and would be the equivalent, as far as effects on the money supply of the Colony is concerned, as a fiduciary issue of the two note-issuing banks possessing this right. The movement of the security fund's assets from Hong Kong to London or vice versa, while it would not affect the money supply directly, would decrease the cash assets of the banking system, and might, thereby, restrain credit expansion. Relative quantities involved make such an effect unlikely, for, as in Malaya, the banks of the Colony have access, through the facilities of the Exchange Fund, or more usually through the interbank sterling market, to London.

The Government of the Colony is also responsible for the issue of subsidiary notes and coins, which are legal tender for debts of limited amounts. These moneys are issued in a manner similar to that described for the one-dollar currency note, and there are security funds for each denomination. There was a proposal in 1949 that all the note security funds should be combined, but there has been no action on this simple administrative reform as yet. The Colony has the dubious honour of issuing the smallest value paper note in the Commonwealth, the Hong

[1]The accounts of the Fund are published in the *Annual Report* of the Accountant-General.

[2]Not included in the Fund's account is $2,400,000 worth of one-dollar note liabilities, representing the amount left unbacked when the Fund was reorganized after the war. Part of this amount consisted of the emergency one-dollar notes issued during the siege of Hong Kong. These notes were actually overstamped unissued Chinese banknotes (National Government) which had been printed in Hong Kong and were awaiting shipment.

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Kong one-cent note, worth about one-seventh of a penny. The notes are so little used that, like the farthing, once obtained, they are difficult to be rid of. At present there is no provision for the payment of profits into general revenue. Comprehensive legislation on this subject has been under consideration since 1949.

External Relations of Hong Kong

Entrepot or industrial state? The latest national income estimate for Hong Kong is 1949/50, and that is based upon statistics which are far from reliable and which are certainly not complete.[1] On the basis of current trade figures alone, it is obvious that Hong Kong has undergone something approximating an industrial revolution. Although both heavy and light industries date to the nineteenth century, it is only within the past four years that industrial production has been in any way a significant determinant of the Colony's national income.

Ship-building and repairing have long been established in the Colony, and it is in the light industries that Hong Kong's recent development has been most spectacular. Of these, the textile industry, employing some 30% of the industrial labour force, is most important, and by the end of 1955, 300,000 spindles were in operation in some 17 modern spinning mills. In the first six months of 1955, $45·2 million worth of cotton yarns were exported, and exports of cotton piece goods, produced on the 6,000 power looms of Hong Kong's 160 weaving factories, reached $90 million during the same period. Hong Kong's umbrellas, torches, knitted gloves and similar products have aroused a hostile press in many countries where competition with an efficient labour force working on the latest equipment around the clock has been impossible. In 1955, over 30% of total Hong Kong exports were exports of Hong Kong products.

The majority of Hong Kong's products are exported to the Sterling Area—to the United Kingdom, to Malaya, and to Africa. Other important buyers include Indonesia and Thailand. Of the total of $344 million exported in the first half of 1955, $65·4 million were sent to the United Kingdom, $42·99 million to Malaya and $35·7 million to Indonesia.

Even without detailed production and employment figures, it is obvious that Hong Kong has been able to survive, following the United Nations embargo on the shipment of strategic goods to China, only because the Colony possessed the ability to change the direction of a great part of its economic energies from trade to industry. This does not mean, however, that trade has been neglected. Trade has been increasing in quantity since the low in early 1954—the volume of trade reached a peak in the fourth quarter of 1950 and then fell quickly to a level approximating 400,000 long tons (quarterly average) in each quarter of 1952 and 1953. In 1955 trade has revived, although the increase in tonnage has not as yet brought value figures near the high registered in the first quarter of 1951 when high prices covered the already declining volume. Nevertheless, the value of trade during the first six months of 1955 showed a slight increase over that of the previous year, from $1,163·7 million in 1954 to $1,185·7 million in 1955 (total merchandise).

In 1955 China still remained as Hong Kong's most important source of imports but took second place to Malaya as the most important market for her exports (including, of course, reexports). This change in the traditional market picture—in which China had always loomed so large—was due to the decreased sale of

[1] R. A. Ma and E. F. Szczepanik, *The National Income of Hong Kong*, 1947–50 (London: Geoffrey Cumberlege, 1955).

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purchases which China made through Hong Kong and to the increased sale of Hong Kong products to Malayan markets. Less than one-sixth of Hong Kong's total trade was with Mainland China. The Colony's over-all trade balance showed a deficit for the first half of 1955 which totalled $657 million, and, although this is traditional, the trade pattern of the Colony has been changing. In 1953, the United Kingdom was first among the industrial nations supplying Hong Kong; in 1954 Japan took the lead. In the first six months of 1955 Hong Kong imported $255·9 million worth of goods from Japan and $227·8 million worth from the United Kingdom. Hong Kong's economic relations with Viet-nam, Cambodia, and Laos are improving, now that these states are no longer so closely tied economically to France.

Trade figures would seem to indicate that Hong Kong's economic survival is not explained simply by the rise of industry and the consequent industrial exports. The redirection of trade has also been important, and the banking facilities of the Colony, combined with her well-known port facilities, insurance companies, and large godown concerns, have induced shippers and shipping companies to continue to use Hong Kong as an entrepot, not only for the China trade, but for the trade of the entire Far East.

Hong Kong's future rests both with industry and with entrepot trade, and both activities are highly competitive. The monetary system must be devised to serve both interests.

Hong Kong's trade with the Sterling Area, the export of her manufactures, the source of her capital—all dictate that the present sterling-exchange standard should be maintained at least until the China Market again dominates the whole of the Colony's economy. But the Far Eastern entrepot trade is equally important, and it is possible that its continuation may not be compatible with full and normal sterling area controls, if they were applied with the rigour witnessed in the United Kingdom, for example. The solution has been one typical of Hong Kong—to combine the best of East and West; in this case, to permit an open market and a sterling-exchange system to operate side-by-side.

The Open Market. At the conclusion of World War II and before the Exchange Banks were operating the authorized market in sterling and foreign exchange, an open market was functioning at rates which corresponded to open-market rates elsewhere in the Far East. This open market for U.S. dollars is still tolerated. It affects Hong Kong's traditional trading area and is designed to encourage the Colony's entrepot trade by recognition of the fact that a large proportion of the U.S. dollar funds in the Colony came there only because the existence of an open market did not divert them elsewhere, and they could not, therefore, be considered part of the Sterling Area's dollar reserves. It was further realized that it would be better to finance the Colony's entrepot trade with its traditional markets with these dollars rather than through limited and problematical access to the Sterling Area dollar pool. However, all transactions in sterling and all transactions other than those with the traditional trading area are carried out under Sterling-Area controls, and Hong Kong makes a large net contribution to the Sterling Area's dollar pool.

Hong Kong itself must finance its import of all but essential U.S. dollar-area goods with exchange from the open market. Although this means that a greater volume of these goods may enter into the Colony's trade, it also means that access to the official market is limited by stricter criteria of essentiality than elsewhere,

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and certain categories of goods which would qualify for exchange from official sources elsewhere in Sterling Area can be imported into Hong Kong only at an exchange premium which is at present about one per cent.

The existence of such a market in the Sterling Area is possible because of Hong Kong's trade and exchange controls which are designed to prevent sterling-area goods' shunting and cheap-sterling transactions.[1]

Hong Kong in the Sterling Area. The Colony's dealings with the Sterling Area, other than those mentioned in the previous section, are conducted through one of the banks authorised to deal in foreign exchange. Sterling is bought and sold on the interbank market, as is the case in Singapore, when the bank with which a member of the public is dealing has insufficient sterling to sell. The usual margin between the bank's buying and selling rate is $\frac{3}{32}$nds of a point. If sterling is short on the interbank market, the note-issuing banks must deal with the Exchange Fund in much the same way as any bank in Singapore may deal with the Commissioners under similar circumstances. (In actual practice in Singapore it is usually the Chartered or Hongkong & Shanghai banks which deal with the Commissioners as the note-issuing banks deal with the Exchange Fund.)

Foreign exchange at official rates is available in Hong Kong through its access to the foreign exchange reserves of the Sterling Area, in a manner similar to that obtaining in the Malayan Currency Area. Official exchange is allowed for the import of certain, limited, essential commodities; it is allowed for essential business travel under certain conditions; persons domiciled outside the Sterling Area and paid in Hong Kong dollars are allowed to remit reasonable amounts to their home countries at official rates; and tourists are allowed a basic allowance.

The mechanism of the Hong Kong dollar-sterling transfer may be examined in more detail. Suppose that the demand for dollar funds is increasing, until there is a net transfer of funds from sterling into dollars, then the sterling reserves and the current accounts of the Hong Kong banks will increase. If this net movement continues, however, the banks will realize that eventually the ratio of their dollar assets to dollar liabilities will be undesirably low. The ratio will not be low in the sense that the banks need fear insolvency; they will be low in the sense that the anticipated currency drain will require more banknotes than the bank has on hand. If the note-issuing banks have issued banknotes to the limit, or nearly to the limit, of their certificates of indebtedness, they realize that eventually it will be necessary to have recourse to the Exchange Fund.

To avoid this, the note-issuing banks will raise the exchange rate against sterling, encouraging holders of dollar funds to transfer them into sterling. On suitable occasions the Government of the Colony and other holders of dollar funds may seize the advantage and transfer their assets into sterling. If, however, the net demand for dollars continues, the banks will eventually decide to increase their dollar reserves. The note-issuing banks can do this either by increasing their holdings of certificates of indebtedness or by increasing their holdings of these certificates and at the same time, increasing the nominal amount of notes in

[1]Hong Kong exchange regulations are designed to prevent cheap sterling transactions, to protect, that is, the interests of the sterling area while permitting the functioning of the open market. The administration of these regulations changes with the requirements of the Colony and of the sterling area, and it is almost impossible to give a complete and accurate account of the market which would be valid one month after writing. An attempt—not always successful—to describe the market as it appeared in 1954 was made by the author and published in the November, 1954 issue of *Economics and Finance in Indonesia* (Jakarta). The safest course for those interested in the open market for business reasons is to put specific questions to the Assistant Financial Secretary (Exchange Control).

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circulation. Other banks will increase their dollar reserves by selling sterling to the note-issuing banks and so increasing their inter-bank deposits with them or by moving a step further and drawing down on their inter-bank deposits to increase their cash-in-hand.

The note-issuing banks will sell sterling to the Exchange Fund and receive in exchange certificates of indebtedness at a rate of $1·00 to every 1/3 sold. The other banks will sell sterling to the note-issuing banks and receive dollar credits at the rate of $1.00 for every 1/3 1/32 sold.

It can be seen from this analysis that, as with the Malayan currency system, the money supply is not affected by the fact that the banks have had to operate through the Exchange Fund. It is further apparent that the 'real' par value of the Hong Kong dollar is not 1/3, as listed with the International Monetary Fund, but, by analogy with other colonial systems, 1/2 15/16 sterling. Since 1% of 1/3 is just under 5/32 of a penny, the Hong Kong dollar may, at the limit, be sold on the interbank market at a sterling price farther under the declared parity than is allowed by the International Monetary Fund.[1] The 1/3 parity has no statutory status, but it is the rate at which the dollar is listed by the Fund and it is also the rate at which government and business accounts are kept.

One further example of the working of the dollar-sterling exchange will suffice. If there is a net demand for sterling, so that the sterling reserves of the banks are being drawn down further than is desired, or if the dollar reserves are thereby higher than desired, the Hong Kong banks will wish to make a net transfer of their dollar assets into sterling. The banks, other than the note-issuing banks, will build up their current account with a note-issuing bank and then buy sterling on the inter-bank market. The note-issuing banks will find that their dollar cash assets, mainly their own banknotes, have increased, both by receipts from other banks building up their accounts from which to buy sterling and from the note-issuing banks' own customers.

The dollar-sterling exchange rate will move in favour of those persons wishing to sell sterling, that is, towards 1/2 7/8, in anticipation of the fact that if the net demand for sterling continues, the note-issuing banks will have to have recourse to the Exchange Fund. When that time comes, the interbank sterling rate will move to 1/2 27/32; and the rate to the public, 1/2 13/16. The note-issuing banks will cancel part of their note-issue if necessary to free certificates of indebtedness for sale to the Exchange Fund. When this is done, total nominal circulation of currency will fall. The Exchange Fund will buy back the certificates of indebtedness, allowing the note-issuing banks to make a concurrent 1/2 7/8 for every dollar's worth of certificates sold, thus accomplishing a net dollar-sterling transfer.

As long as the Exchange Fund buys certificates when presented them and allows a concurrent purchase of sterling at the announced rate of 1/2 7/8, as long as the Exchange Fund sells certificates concurrently with a sale of sterling to the Fund at the rate of 1/3, and as long as the note-issuing banks operate within the described range, Hong Kong is on a sterling-exchange standard of the normal colonial type. The Exchange Fund is equipped with all the properties of an Exchange equalization fund, however, and it is only current practice that results in the monetary system of Hong Kong paralleling that of the Malayan Currency Area.

[1]The only point I am making here is that although the Hong Kong dollar fluctuates around its declared par value at an excessive amount, it does not fluctuate around its 'centre' value in excess of the IMF rules.

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Concluding observations. Through membership in the Sterling Area and through the facilities provided by the open market, the Colony is able to finance the entrepot trade of the Far East. The Colony's banks have branches throughout the world; Hong Kong's banking facilities are unexcelled anywhere in the Far East; Hong Kong is ideally suited to finance the trade of the Far East. Manufacturing, though of increasing importance, cannot replace trade in the Hong Kong economy —first, because the very export of the manufactures depends upon Hong Kong's shipping facilities which might not survive the decline of the entrepot trade; second, Hong Kong's markets for local manufactures are uncertain and their future commercial policies cannot be predicted. Although industry, manufacturing, mining, and fisheries will continue to have a greater relative importance than they held but a few years ago, the Colony must always be prepared to take over again the task of expediting the China trade. Therefore, the Colony's monetary relationships should be sufficiently flexible to allow for any change which the revival of such trade might require.

Despite Hong Kong's close relations with the Sterling Area, the Colony must continue its dual outlook; it must keep prepared for the requirements of the highly competitive and constantly changing nature of the entrepot trade. This requires the freedom of the open market and the facilities which access to London provides.

The Money Supply—an Analysis

Bank money. Current accounts of commercial banks are considered to be money and to be part of the money supply. In most advanced economies bank money is more important than legal tender in the economy, and that is certainly the case in Hong Kong as it is in Malaya.

Banking statistics are practically non-existent in Hong Kong, and it is impossible to tell from the annual reports of the banks the size of their Hong Kong monetary liabilities. The account liabilities of the banks include not only current accounts in Hong Kong but also current accounts wherever else the bank may have a branch, interbank deposits, and deposit accounts. An estimate made in 1949 gives total bank deposits in Hong Kong at some figure between 700 and 800 million dollars,[1] a little under the nominal note circulation of the same period, but undoubtedly greater than the active note circulation, the relevant figure. When the greater velocity of circulation which bank money possesses is taken into consideration, it can be seen that bank money is by far the most important part of the money supply of Hong Kong. The public has no way of knowing what this figure may be.

The Monetary Equation. The monetary equation for the Colony is composed of the summation of the monetary contributions of the Government and the banks. The contribution of the former is as follows:[2]

(i) one-dollar notes in the hands of the non-banking public + subsidiary notes and coin in the hands of the non-banking public = sterling investments + current accounts with the Hongkong & Shanghai Bank + deposit accounts with the same bank—(notes and coin in the banks + 'Hong Kong Govt. A/c.' + net worth).

[1] *Monetary Systems of the Colonies*, p. 26.

[2] There is $2,420,000 worth of Government one-dollar notes legally in circulation which are not backed in any way, but they are assumed to have been lost or destroyed, and do not appear in this equation.

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The current accounts of the security funds are not money, although by definition current accounts are normally considered so. The reason for this exclusion is that the current accounts of the funds are used solely for the purpose of redeeming one-dollar notes or subsidiary notes and coin. When the current account becomes too large for this purpose, part is transferred into sterling and invested. The expenses of the One-Dollar Note Security Fund are paid out of the fund's income account; the expenses of the other note security funds out of the general revenue of the Colony.

The contribution of all banks is given as follows:

(ii) current accounts (except those of the Note Security Funds) + officer's cheques + banknotes in the hands of the non-banking public = Hong Kong cash in hand + certificates of indebtedness + local investments and advances + sterling + sterling investments + other investments + other balances in foreign banks—(account liabilities other than current accounts but including those of the note security funds + banknotes in banks + net worth)

The certificates of indebtedness call for another equation for the Exchange Fund:

(iii) certificates of indebtedness = sterling + investments—net worth of the Exchange Fund

The banknotes which are to be found as 'cash in hand' cancel with the item 'banknotes in banks'. The right-hand side of equation (iii) can be substituted for certificates of indebtedness in equation (ii) giving:

(iv) monetary liabilities of the banks = government notes and coin in hand + sterling + sterling investments + other investments and loans + other balances in foreign banks—(non-monetary account liabilities + net worth of the banks and the Exchange Fund)

The money supply of the Colony can then be found by adding equation (i) to equation (iv) to give:

(v) the money supply = sterling + sterling investments + other loans, advances and investments + other balances in foreign banks—(deposit accounts* + net worth of banks, Exchange Fund, and Note Security funds)

(*excluding the deposit accounts of the note security funds)

The item on the assets side of equation (i), 'current accounts with the Hongkong & Shanghai Bank' does not appear, as it would only be necessary to subtract it again as a non-monetary liability of the banks. That is why, in equations (ii) and (iv), the current accounts of these funds had to appear as a non-monetary liability of the banks. In equation (v) it is possible to reword the non-monetary liabilities and call them simply 'deposit accounts'.

The lack of statistics in Hong Kong makes it impossible to calculate the size of the money supply directly. Banks in Hong Kong are not required to give statistics either of banknotes in hand or current accounts in the Colony. The balance sheet required by the Banking Ordinance is for the bank as a whole and not for its Hong Kong branches separately. It then becomes necessary to examine the right-hand side of the monetary equation (v) in detail, to examine, that is, the determinants of the money supply. Again lack of statistics makes it impossible to learn, for example, the current assets of the Exchange Fund, or that proportion of the investments of of the banks made in this Colony, or the proportion of their cash assets in sterling.

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Until these basic figures are made available, it will be impossible to calculate the money supply of the Colony of Hong Kong.

Changes in the money supply. As explained in chapter three the changes in the money supply of an area are caused by changes in the determinants of that money supply, and although it is impossible to examine this matter quantitatively in this colony, it is possible to examine the conditions under which the money supply can change.

The sterling and sterling investments of the banks, exchange fund, and note security funds may change without affecting the money supply providing there is no net change. Thus a note-issuing bank wishing to issue more notes might have to sell sterling to the Exchange Fund, buy certificates of indebtedness, and issue notes which would be placed in its own 'cash on hand'. The ownership of the sterling would change hands, but the quantity in the monetary equation would not change, and all other transactions cancel out in the equation. The increase in the Hong Kong money supply caused by the net transfer of funds from London to Kong Kong does not occur simultaneously with an increase in the nominal amount of currency in circulation. If a merchant pays sterling into the account of a Hong Kong bank in London, he will be credited with dollars in Hong Kong, and it is this increase in current accounts caused by the increase in the determinant, sterling, which is the increase in the money supply. Any increased issue of banknotes is merely an anticipation of the currency drain, the size of which will depend, in part, upon the public's preference for banknotes over government one-dollar notes, subsidiary notes, and coins which do not cause a drain from the banking system.

The Hong Kong Government can affect the size of the money supply by keeping its excess funds either in the Colony or in London. By moving funds to London, the Government decreases the money supply by decreasing the sterling in the hands of the banks—that is, if the banks do not have recourse to the Exchange Fund, and if the current accounts of the Government are considered money. The sterling lost to the monetary equation is not, of course, lost to the Colony, but simply moves to the possession of something which is not part of the monetary equation, i.e. the Government of the Colony. More important, if funds are kept in London, they are not available as reserves on which to base a multiple credit expansion in Hong Kong.

The loans, advances, and investments of the banks are mainly directed to the finance of trade, as a reading of the annual reports of the managers of the Exchange Banks so obviously reveals. The Exchange Banks have prided themselves on the contribution they have made to the reconstruction of the British Far East since the war, and in the past they have made loans for various political purposes when requested by the United Kingdom Government and backed by it. The volume of earning assets of the banks here is, however, largely a function of the total value of the Colony's trade. Risk capital is furnished by investors in stock, many family businesses are financed by family savings, but consumer credit is both expensive and difficult to obtain unless secured by highly negotiable assets. Government loans from surplus funds do not necessarily increase the money supply but certainly affect the velocity of circulation.

The total amount of the deposit accounts is partly dependent upon the size of the money supply and partly dependent upon the public's changing preference for this form of saving. To the extent that the public prefers to keep its cash assets in this form, the money supply is lowered, but it is impossible to obtain statistics for

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any quantitative analysis. The net worth of the banks has been increasing, but this contractionary item has been offset by a growth in other assets, notably sterling and sterling investments. The Exchange Fund and the note security funds have been increasing because of the general increase in Hong Kong nominal currency circulation since the war. This, in turn, means increased earnings from investments and so, since profits are not as yet paid into the general revenue of the Colony, an increase in both assets and net worth, thus having no effect on the money supply.

There must have been some fall in the money supply with the imposition of the United Nations embargo on strategic goods to China, but, in general, the money supply of the Colony has been increasing since the war—even the nominal figures reveal this. Banknote issue 31st December, 1945, was $289,380,441; 1948, $783,206,709; 1952, $801,562,582; and 1953, $802,211,984. The relation of the figures, except in the most general way, to the money supply is difficult to state. For example, the note issue of one bank might decrease in the same year as there was a general expansion in the Colony's nominal currency circulation. In 1953 a fall in the government one-dollar note circulation more than offset the increase in the note issue of the Mercantile Bank. Previously, successive decreases in the Mercantile Bank's note circulation had started rumours that the Bank intended to withdraw its entire issue. Perhaps the only interesting observation is that the relative stability of the banknote issue is more revealing of the banks' reserve policy than it is of the changes in the money supply.

Potentials of monetary policy. Since bank money is relatively more important in the Hong Kong economy, multiple credit expansion is possible and, as in Malaya, an increase in the money supply does not depend upon the surrender of 100% sterling cover. This, it will be recalled, was a mistaken assumption based upon a situation that would prevail in primitive economies. There is no need, therefore, to duplicate in this chapter the section on credit expansion in chapter three. The banking structure in Hong Kong and the Colony's financial relations with England are sufficiently similar. Only one new factor need be discussed; there can be a fiduciary currency issue in the Colony, and therefore, the formula for the loan coefficient would have to be revised, and the banking system's currency drain would not necessarily be as great as if there were no fiduciary issue. At present the banks are not making use of their rights to a fiduciary issue, potentially $12,000,000. Part of the government one-dollar and subsidiary note issues is backed by dollar assets, but the amount is subject to change without notice.

Although there is no central bank in the Colony, the Hongkong and Shanghai Banking Corporation can initiate policies which affect the economy. In the summer of 1955, for example, the Bank is reported to have decided that there was an unusual amount of speculation on the Hong Kong stock exchange. Accordingly, the Bank, in concert with the other note-issuing banks, raised the rate of interest on advances from 5% to a maximum 8% per annum, increased interest rates on fixed and savings account to 2%, and gave interest on current accounts over $5,000 minimum monthly balance at the rate of 1% per annum.

The effect on the stock exchange was immediate; there was a sharp fall, a recovery, and then a gradual fall in prices to the level prevailing earlier in the year. The bank's policy had been successful without any compulsory powers, without even the prestige of being a central bank. At the same time the bank undertook to initiate selective credit controls by charging an overdraft rate, varying from 6% to 8%, according to the use to which the overdraft was being put. If one bank

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wields so much power, it has, in effect, some of the authority of a central bank, and a monetary policy for the Colony is possible, although it will be the policy of the bank rather than that of the Government.

To leave the matter here would be to leave an exaggerated picture of the bank's power. The Hongkong and Shanghai Bank is probably responsible for supplying the bulk of credit to the stock market, and in this field its decisions would have immediate effect. And, in this example, the decision of the Hongkong and Shanghai Bank was accepted by the other note-issuing banks. In other circumstances, even though the Hongkong and Shanghai Bank is the largest in the Colony, it would be some time before any general credit policy would have any affect upon the policies of other banks, if those banks refused to accept the Hongkong and Shanghai Bank's action as warranted in the given economic situation. The prestige of the bank, coupled with the reluctance of customers to change their banks or their inability to establish the same credit relations elsewhere, are on the other hand, factors which would increase the general effectiveness of any policy it initiated.[1]

Eventually, any small bank in Hong Kong which attempts to lend in a period of credit restriction initiated by the Hongkong and Shanghai Bank will find its reserves are being lost through the clearing house drain, and this will force the small bank into line with the larger bank's general credit policy. Nevertheless, the power of the Bank remains only as long as other banks continue to use it as a clearing bank and its customers refuse to transfer their accounts. Thus, the power of the Hongkong and Shanghai Bank can only last as long as its customers, both banks and non-banks, continue to accept its leadership.

In the Malayan Currency Area, no one bank dominates, and it seemed too obvious to mention the fact that if the several leading banks agreed on a credit policy, it could be forced upon the smaller banks. In other respects, the potentials for monetary policy in Hong Kong parallel those in the Malayan Currency Area, and there is no need for repetition.

Conclusions

Statistics. There are inadequate economic statistics in Hong Kong in all fields except those of physical trade—imports, exports, Hong Kong products entering therein—and industry—number of factories, workers employed. Even the population of the Colony is unknown. The balance of payments has been computed and classified 'secret'—and with reason, since the figures are mere guesses at a time when Hong Kong's relations with China are unfairly and wrongly suspect. There is a cost of living index, which, whatever its failings, is probably constructed on the basis of adequate statistics. It is in the field of money and banking where the omission is greatest, and that in a community in which money and banking are the essential business of the economy.

The Exchange Fund accounts have not been published since before the war, possibly to hide the effect of the duress note issue and the transfer of assets from the fund to the Hongkong and Shanghai Bank which the legalization of this issue necessitated.

[1]A discussion as to the reasons for and causes of the Hongkong and Shanghai Bank's credit moves, including the further credit restriction in October, 1955, is to be found in the following 'Check on Speculative Activity', *Far Eastern Economic Review*, XIX (17th November, 1955), 637–638, and Frank H. H. King, 'Credit and Speculation in Hongkong', *ibid* (8th December, 1955), 729–730.

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This is not the place to suggest exactly what statistics ought to be published, but the minimum required are those published by the Federation of Malaya in their *Statistical Bulletin.*

Perhaps the best case can be made for publication of statistics of the banknote issue—in addition to the figure of nominal circulation. This may be an unwarranted enquiry into the conduct of a private enterprise, but, while banking is a private business, the issuance of currency is not. In most countries, publication of banking statistics in useful form has not been considered a violation of fundamental rights.

Hong Kong's status as a colony places her economic policies, and particularly her monetary and banking policies, under the scrutiny of the United Kingdom Government. That government quite naturally tends to think, however, in terms of economic policies at present current in the United Kingdom. To the extent that there is an economic policy in the colonies as a whole, Hong Kong's different position must always be defended against equation with Nigeria, Kenya or some other less developed area. This placing of Hong Kong continually on the defensive breeds an attitude that it is best to keep quiet about the balance of payments, about trade practices, about the open market. Officials in the United Kingdom acquainted with the Colony's problems will see the necessity of the divergence of policy, will see that Hong Kong's position as an entrepot off the tip of the Asian continent places it in a position different from that of the United Kingdom or any other colony. There is always the inference that 'others wouldn't understand', and it would be as well not to say anything about it.

For a Colony as economically mature as Hong Kong, this is a strange position. Hong Kong should not have to defend her policies because they diverge from prevailing opinion in the United Kingdom or anywhere else. Economic policy for this colony should be designed entirely to benefit this colony and should be defended on this basis alone, international commitments of the United Kingdom, political economic opinions in the United Kingdom notwithstanding. As a minor byproduct of such a change, the second reason for reticence in supplying statistical information will have been eliminated.

The banknotes issue. Hong Kong may well be the last survivor of an era when paper money was the responsibility of privately controlled banks. In 1935 and again in 1939 there was discussion as to whether the government ought to take over the note issue, but the war focussed attention on more important problems. Nevertheless, the unique nature of the currency of the Colony, while it does not indicate the *a priori* need for change, does suggest the need for critical discussion. Perhaps the first part of the discussion should be based on the very crudely worded question, 'What do the banks get out of a note-issue?'

A banknote is the equivalent of an interest-free loan to a bank by the holder of the note. In so far as the bank is forced to hold 100% reserves against its note issue, the bank is unable to take advantage of the loan. In Hong Kong that portion of the banknote issue which is backed by bank-owned securities provides the bank with a gross income equal to payments arising from these securities—the net income is equal to gross less the 1% banknote duty and the costs involved. There is, perhaps, the further advantage of prestige which the banks may acquire from their right to issue notes, but when the cost of printing and issuing them is considered, the monetary reward to the banks cannot be great. It remains true, however, that whatever the net income from the note issue as a whole, that amount is lost to the Government in favour of private business institutions.

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From the point of view of policy, the question surely is, 'Can the interests of the note-issuing banks and the Government diverge?' considering only those aspects of policy relevant to the note issue. In the section on the monetary history of Hong Kong, the unwillingness of the Hongkong and Shanghai Bank to expand its note issue in 1929 has been recounted, and there was then a divergence between public and private interest. Now banknotes are legal tender, and the banks would not have the discretion over note-issue that they then had. Monetary policy is not usually well administered through regulations pertaining to legal tender. Legal tender is the least important part of the money supply, and monetary policy, if any, must be directed elsewhere. There is no need to suppose, therefore, that the Hong Kong Government, if it should ever wish to enter the field of monetary management, could do so with better hope of success if the note issue were entirely in its hands.

The conclusion must be that the question of the banknote issue is not really one of pressing importance. Should the banks keep their note-issuing rights, Government policy would not thereby be impeded; if the Government took over the entire note issue, the banks would lose nothing but their relatively small net income arising from that part of their note issue backed by interest-bearing securities.

The Hong Kong Government is still considering consolidating currency legislation. Perhaps this is the time to settle the matter of banknotes, but the economist can merely point out the problems involved in this case; it is difficult for him to take sides, except, perhaps, to hope that the reserve requirements for the three banks might be made uniform instead of colourfully reflecting as they do the monetary history of the Colony.

The Sterling Area. Hong Kong's membership in the Sterling Area should be maintained so long as it does not interfere with finance of the China trade, *if* and *when* this trade ever regains its pre-embargo proportion. From 1935 to 1939 China attempted to maintain the foreign exchange value of the *fapi* both in terms of sterling and of US dollars. She was unable to do so, even with the assistance of large foreign aid. Exchange controls and restrictions kept the Chinese dollar in stable relationship with sterling after 1939, but then only for officially approved transactions. As long as China kept her official rate pegged to the US dollar, and sterling and the US dollar were in stable relationship, so long was Hong Kong able both to finance the China trade and belong to the Sterling Area. As trade shifted into black market exchange channels, Hong Kong had to have recourse to trading on an open market within the Colony and to protecting the Sterling Area by exchange and trade controls.

This duality has already been explained, and it is a workable solution. Hong Kong's markets finance their trade with the colony in sterling; Hong Kong products find their largest market in the Sterling Area; there are traditional relationships between the great agency houses in the Colony and the United Kingdom, for whom, other things being equal, a stable exchange on London is an advantage. The open market has provided an excellent and well-controlled escape valve for all types of blocked sterling, including switch, and here the two sides of the colony's economy—the sterling-area relationship and the open market—have both contributed to the Colony's economic usefulness and prosperity.

This membership does not necessarily mean, however, that the Colony ought to be required to keep 100% sterling reserves against its currency. This is a problem which needs further examination. First, the note-issuing banks are

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already allowed a $12,000,000 fiduciary issue, and in the chapter on the Malayan Currency Area, it was shown that the 100% system is, in reality, a 70% system. Is the colonial currency system, with the modifications just mentioned, unreasonable for Hong Kong?

Perhaps more than any other Colony, except e.g. Gibraltar, Hong Kong has a high propensity to import—though not as high as but two years ago when her industries were still undeveloped. It is extremely doubtful if a lowering of sterling reserve requirements would benefit Hong Kong under these circumstances, remembering also that bank money is relatively more important than legal tender in the Colony. Because of the Colony's potential relationship with China—however dubious the prospects for more trade—the monetary system requires the greatest potential flexibility. That is achieved by the original provisions of the Currency (now, Exchange Fund) Ordinance. While the Exchange Fund actually is working as a currency board, however, the present reserve system meets the requirements of the Colony. The flexibility need only be potential, and potentially the currency system of Hong Kong is already capable of any change necessary without further legislative action.

Considering the strong position of the Hongkong and Shanghai Bank, the Colony does not now require a central bank for any purpose. The Hongkong bank is already performing the functions which a central bank, if formed, would be capable of doing in the economy of this entrepot port. If this is undesirable from a political point of view, then further consideration might be given the matter, but the idea of a central bank for Hong Kong has never really seemed a sensible suggestion.

The conclusion of this chapter is that the monetary and banking system of Hong Kong is adequate to its needs. The system is unique in many respects, but it would be unwise for the United Kingdom Government to judge these aspects of the Colony's economic life on the basis of prevailing policy in England. The economic future of Hong Kong must be decided here on the basis of considerations which refer only to the welfare of this Colony and not to that either of the United Kingdom or of the Commonwealth as a whole. To deny this would be to deny the purpose of Hong Kong, would be to deny its historical role in the Far East, and would be to deny it the future.

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APPENDIX I

List of Banks Operating in British East Asia

A. Banks Operating in the Federation of Malaya at 31st December, 1954

Bank of China
Ban Hin Lee Bank Ltd.
Batu Pahat Bank Ltd.
Chartered Bank of India, Australia and China, The
Chung Khiaw Bank Ltd.
Eastern Bank Ltd., The
Hongkong and Shanghai Banking Corporation, The
Indian Overseas Bank Ltd., The
Indian Bank Ltd., The
Kwong Yik (Selangor) Banking Corporation Ltd., The
Mercantile Bank of India Ltd., The
Nederlandsche Handel-Maatschappij, N.V. (Netherlands Trading Society)
Oriental Bank of Malaya Ltd., The
Oversea-Chinese Banking Corporation Ltd.
United Commercial Bank Ltd., The

B. Banks Operating in Singapore at 31st December, 1954

Banque de L'Indochine
Bank of China
Ban Hin Lee Bank, Ltd.
Bank of India Ltd., The
Bank of East Asia Ltd., The
Bank of Canton Ltd., The
Chung Khiaw Bank Ltd.
Chartered Bank of India, Australia and China, The
Eastern Bank Ltd., The
Hongkong and Shanghai Banking Corporation, The
Indian Overseas Bank Ltd., The
Indian Bank Ltd., The
Industrial and Commercial Bank Ltd., The
Kwong Lee Banking Co.
Kwangtung Provincial Bank, The
Lee Wah Bank Ltd.
Mercantile Bank of India Ltd., The
Nederlandsche Handel-Maatschappij, N.V. (Netherlands Trading Society)
Nationale Handelsbank, N.V.
National City Bank of New York, The
Overseas Union Bank Ltd.
Oversea-Chinese Banking Corporation Ltd.
Sze Hai Tong Banking and Insurance Co. Ltd.
United Chinese Bank Ltd., The
United Commercial Bank Ltd., The

C. Banks Operating in Hong Kong at 31st December, 1954

American Express Co., Inc.
Banco Nacional Ultramarino
Bangkok Bank Ltd.
Bank of Canton Ltd.
Bank of China (Hong Kong branch)
Bank of Communications (Hong Kong branch)

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Bank of East Asia Ltd.
Bank of Korea
Bank of Kwangsi Ltd.
Bank of Tokyo Ltd.
Banque Belge Pour L'Etranger (Extreme-Orient)
Banque de L'Indo Chine
Canton Trust and Commercial Bank Ltd.
Central Trust of China (Hong Kong Branch)
Chan Man Fat Bank Ltd.
Chartered Bank of India, Australia, and China
Chekiang First Bank of Commerce (Hong Kong) Ltd.
Cheong Kee Bank
Cheuk Kee Bank
Chi Yu Banking Corporation Ltd.
China and South Sea Bank (Hong Kong Branch)
China State Bank Ltd. (Hong Kong Branch)
Chinese Postal Remittances and Savings Bank
Chiu Tai Bank Ltd.
Choi Kee Bank
Dah Sing Bank Ltd.
Dao Heng Bank
E. D. Sassoon Banking Co. Ltd.
E. D. Sassoon Banking Co. Ltd. (incorporated in the Bahama Island)
Farmers Bank of China
Fat Cheong Bank Ltd.
Fengtien Co. Ltd.
Foo Kee Bank
Fook Wa Banking and Insurance Co. Ltd.
Hang Lung Bank Ltd.
Hang Seng Bank Ltd.
Hang Shun Gold Dealer
Hang Tai Bank
Ho Cheng Bank
Hongkong and Shanghai Banking Corporation
Hong Kong and Swatow Commercial Bank
Hong Kong Trust Corporation
Hong Nin Savings Bank Ltd.
Ka Wah Bank Ltd.
Kan Koam Tsing and Co.
Kar Cheung Chong Bank
Kingcheng Banking Corporation
Kung Yue Bank
Kwai Kee Bank
Kwangtung Provincial Bank (Hong Kong Branch)
Kwong On Bank
Lee Shing Bank
Liu Chong Hing Savings Bank
Lui Hing Hop Cheung Kee Bank
Man Cheong Bank
Mercantile Bank of India
Ming Tai Bank
Ming Tak Bank
Mun Fat Bank Hing Kee
Nanyang Commercial Bank
First National City Bank of New York
National Commercial Bank (Hong Kong Branch)
National and Commercial Savings Bank Ltd.
National Industrial Bank of China
Nationale Handelsbank, N.V.
Nederlandsche Handel-Maatschappij, N.V.
Ngau Kee Bank
On Tai Bank

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Oversea-Chinese Banking Corporation, Ltd.
Po Sang Bank
Shanghai Commercial Bank Ltd.
Sin Hua Trust, Savings and Commercial Bank Ltd. (Hong Kong Branch)
Sze Hai Tong Banking and Insurance Co. Ltd.
Tai Sang Bank Ltd.
Tai Yau Bank Ltd.
Thos. Cook and Son (Continental and Overseas) Ltd.
Underwriters Bank Inc.
United Chinese Bank Ltd.
United Commercial Bank Ltd.
Wing Cheung Bank
Wing Hang Cheong Kee Bank
Wing Lung Bank
Wing Ming Bank
Wing On Bank Ltd.
Wing On Co. Ltd.
Wing On Fire and Marine Insurance Co. Ltd.
Wo Cheung Bank
Yau Tak Bank
Yau Wing Bank
Yau Yue Commercial Bank Ltd.
Yien Yieh Commercial Bank (Hong Kong Branch)
Young Brothers Banking Corporation (Hong Kong Branch)
Yeu Man Banking Co. Ltd.
Yue Tak Shing Kee Bank

APPENDIX II

Supplemental Charter of the Chartered Bank of India, Australia and China

George the Sixth, by the Grace of God, of Great Britain, Ireland and the British Dominions Beyond the Seas, King, Defender of the Faith, Emperor of India: To ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

---

4. (1) The provisions of Clause 7 of the Consolidating Charter shall be and the same are hereby revoked and determined and the following provisions shall henceforth be substituted therefor:

"7. The power of the Company to make issue re-issue and circulate at and from its Banks and Branch Banks Notes payable to bearer shall without prejudice to the generality of the provisions of Clause 6 of the Consolidating Charter be subject to the following restrictions namely:

(i) No such notes shall be issued

(*a*) in this Our United Kingdom or

(*b*) in any part of Our dominions in which the exclusive power of issuing such Notes has been or may be reserved to the Government thereof or to a duly constituted Bank of issue or to Commissioners appointed for that purpose except with the previous sanction of the Government of that part of Our dominions, or

(*c*) in any part of Our dominions in which provisions under the local law are made with respect to the issue of Notes, except in accordance with and subject to those provisions,

(*d*) in the Colony of Hong Kong for any other sum than one dollar or five dollars or some multiple of five dollars or other equivalent amount, or

(*e*) in any part of Our dominions other than the Colony of Hong Kong for any other sum than One pound or some multiple thereof or other equivalent amount.

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(ii) All such notes shall bear date at the place of issue and shall be payable to bearer on demand.

(iii) Such Notes, when issued at such Banks or Branch Banks as aforesaid in any part of Our dominions in which such Notes are not legal tender shall be made payable in coin or Notes being legal tender of Our United Kingdom or other coin or Notes lawfully current in the place from which they shall be issued.

(iv) Such Notes, when made and issued at and from any Branch Bank or Establishment in any part of Our dominions not being the principal Banking Establishment at the seat of Government of that part of Our dominions, shall be made payable as well at the principal Banking Establishment or the Company at the seat of Government in that part of Our dominions within which such Notes shall be made and issued as at the particular Bank or Establishment from which the same shall be made or issued as aforesaid.

(v) Except as hereinafter provided the Company shall not at any time have in actual circulation Notes in excess of the total amount of $20,000,000 or, with due notice to the Treasury, in excess of the total amount of $35,000,000.

(vi) (*a*) The Company shall at all times keep deposited either with the Crown Agents for Our Colonies in London or with Trustees to be appointed by the Treasury or with the Government of the part of Our dominions in which the Notes are issued or partly with such Crown Agents and partly with such Trustees or Government coin or legal tender notes of denominations to be approved by the Treasury or securities to be so approved or partly such coin or legal tender notes and partly such securities equal to one-third of the Notes issued by the Company up to $8,000,000 and, in addition thereto, for any Notes issued by the Company and actually in circulation in excess of $8,000,000 up to a total of $30,000,000, coin or legal tender notes of denominations to be approved by the Treasury or bullion or securities to be so approved or partly such coin or legal tender notes and partly such bullion and securities and, for any notes issued by the Company and actually in circulation in excess of $30,000,000 such coin or legal tender notes or bullion or partly such coin or legal tender notes and partly such bullion, equal to the whole amount of such Notes actually in circulation: Provided that not less than one-third in value of the funds so deposited shall consist of coin or legal tender notes of denominations to be approved by the Treasury as aforesaid.

(*b*) Any coin or legal tender notes bullion or securities deposited in accordance with the foregoing paragraph shall be held by the said Crown Agents or by the said Trustees or Government separately or jointly as special funds exclusively available for the redemption of Notes issued by the Company wherever the same may have been issued and in the event of the Company become insolvent shall be applied accordingly so far as may be necessary but without prejudice to the rights of the holders of such Notes to rank with other creditors of the Company against the assets of the Company.

(*c*) Notwithstanding anything contained in paragraph (*a*) hereof, in any case in which the Company is under that paragraph required or empowered to deposit coin or legal tender notes or bullion in respect of any Notes issued or to be issued by the Company in the Colony of Hong Kong the Company shall, instead of depositing coin or legal tender notes or bullion as provided in that paragraph, hold certificates of indebtedness or other direct obligations of the Government of the said Colony redeemable on demand. The amount of any Notes issued of the Company and actually in circulation in respect of which the Campany shall hold such certificates of indebtedness or other direct obligations shall not be reckoned against the limits mentioned in Sub-Clause (v) hereof."

IN WITNESS whereof WE have caused these Our Letters to be made Patent.

WITNESS Ourself at Westminster the fifth day of July in the third Year of Our Reign.

BY WARRANT UNDER THE KING'S SIGN MANUAL.

SCHUSTER.

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APPENDIX III

Certificate of Indebtedness

Certificate of Indebtedness for $.....

This certificate issued under the Exchange Fund Ordinance (Chapter 66 of the Laws of Hong Kong, Revised Edition) represents indebtedness of the Hong Kong Government without interest to.....Bank for the amount of.....dollars and is redeemable at any time at the option of the Financial Secretary.

.....
Financial Secretary.

Hong Kong
, 195

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APPENDIX IV

The Hongkong and Shanghai Banking Corporation

(The liability of members is limited to the extent and in manner prescribed in Chapter 70 of the Laws of Hong Kong)

Balance Sheet at 31st December, 1954

1953 Hong Kong Dollars			Hong Kong Dollars	Sterling Equivalent
	SHARE CAPITAL			
	Authorised and Issued			
$20,000,000	160,000 Shares of HK$125 each, fully paid		$ 20,000,000	£ 1,250,000
	RESERVE LIABILITY OF MEMBERS HK$125 per share on 160,000 Shares	$ 20,000,000		
96,000,000	**RESERVE FUND**	....	128,000,000	8,000,000
9,859,542	**PROFIT AND LOSS ACCOUNT**	....	10,215,256	638,453
125,859,542			158,215,256	9,888,453
	HONG KONG CURRENCY NOTES IN CIRCULATION			
30,000,000	Authorised Note Issue	$ 30,000,000		
725,742,086	Excess Note Issue	645,742,000	675,742,000	42,233,875
2,636,471,149	**CURRENT DEPOSIT AND OTHER ACCOUNTS,** including Reserves and Provisions for Contingencies and Taxation (of this total $171,174 ($421,431) is secured)	2,672,640,569		
295,948	**AMOUNTS DUE TO SUBSIDIARY COMPANIES**	315,043		
10,557,154	**ACCEPTANCES ON BEHALF OF CUSTOMERS**	56,521,108		
7,760,842	**PROPOSED FINAL DIVIDEND** in respect of the year ended 31st December, 1954	7,760,842	2,737,237,562	171,077,348
$ 3,536,686,721			$ 3,571,194,818	£223,199,676

NOTES:

1. There are contingent liabilities on bills re-discounted amounting to HK$3,443,428 ($8,621,492) and commitments in respect of Confirmed Credits, Guarantees and Forward Exchange Contracts.
2. Foreign Currency Balances have been converted into Hong Kong Dollars at approximately the rates ruling at 31st December, 1954. The Sterling equivalents of the figures shown in the above Balance Sheet have been converted at the rate of HK$1 = 1/3d.

MICHAEL W. TURNER
Chief Manager.

G. O. W. STEWART
Chief Accountant.

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1953 Hong Kong Dollars			Hong Kong Dollars	Sterling Equivalent
	CASH IN HAND AND IN TRANSIT AND BALANCES WITH OTHER BANKS			
$ 439,316,817			$ 330,985,725	£ 20,686,608
680,529,614	**MONEY AT CALL AND SHORT NOTICE**		576,659,313	36,041,207
	BILLS RECEIVABLE			
295,927,960	British and other Government Treasury Bills		208,216,130	13,013,508
326,653,157	Trade Bills		494,655,277	30,915,955
	HONG KONG GOVERNMENT CERTIFICATES OF INDEBTEDNESS issued in respect of funds deposited as security for the Excess Notes Issue		645,883,047	40,367,690
725,883,047				
	INVESTMENTS, at under market values:			
	British, Colonial and Other Government Securities (including $43,378,400 ($41,865,200) deposited as security for the Authorised Note Issue):			
276,936,368	Quoted in Great Britain		279,964,012	17,497,751
96,217,898	Quoted outside Great Britian		96,347,487	6,021,718
	Other Investments:			
252,752	Quoted in Great Britain		15,702,816	981,426
14,805,971	Quoted outside Great Britain		14,745,993	921,625
	ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS, less provision for Bad and Doubtful Debts		829,455,105	51,840,944
645,652,630				
	LIABILITIES OF CUSTOMERS FOR ACCEPTANCES, per contra		56,521,108	3,532,569
10,557,154				
3,512,733,428			3,549,136,013	221,821,001
	FIXED ASSETS			
	Investments in Subsidiary Trustee and Nominee Companies, at cost	$ 2,135,843		
2,135,843				
	Bank Premises at cost, less amounts written off	19,922,962	22,058,805	1,378,675
21,817,460				
$ 3,536,686,721			$ 3,571,194,818	£223,199,676

C. BLAKER
R. GORDON
J. H. HAMM
Directors.

REPORT OF THE AUDITORS TO THE MEMBERS OF THE HONGKONG AND SHANGHAI BANKING CORPORATION

We have examined the above Balance Sheet with the books of the Corporation kept in Hong Kong, with the audited accounts of the London Office and with the returns received from the other Offices which have been signed by the Branch Managers. We have obtained all the information and explanations we have required and in our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Corporation's affairs at 31st December, 1954, according to the best of our information and the explanations given to us and as shown by the books kept in Hong Kong and by the returns received from the Offices.

Hong Kong, 14th February, 1955. PEAT, MARWICK, MITCHELL & Co. / LOWE, BINGHAM & MATTHEWS — *Chartered Accountants, Auditors.*

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TABLE I

The Money Supply—Malayan Currency Area, 1949-54

Thousands of Malayan dollars

Date	(1) Active circulation	(2) Currency in Government Treasury	(3) Currency supply (1 + 2)	DEMAND DEPOSITS (4) Singapore	(5) Federation	(6) Malaya (4 + 5)	(7) British Borneo	(8) Total demand	(9) Money Supply less British Borneo demand deposits	(10) Money Supply Malaya—British Borneo
1949 December 31st	310,914	2,450	313,364	313,039	251,839	564,878	13,013	577,891	878,242	891,255
1950 December 31st	515,165	2,798	517,963	460,413	404,477	864,890	21,978	886,868	1,382,853	1,404,832
1951 I . .	599,441	2,847	602,288	532,957	496,225	1,029,182			1,631,470	
II . .	623,565	2,896	626,461	558,085	499,907	1,057,992			1,684,453	
III . .	638,781	2,856	641,637	560,726	547,422	1,108,148			1,749,785	
IV . .	654,472	2,815	657,287	539,708	514,599	1,054,307	30,797	1,085,104	1,711,594	1,742,391
1952 I . .	635,011	2,840	637,851	512,102	539,837	1,051,939			1,689,790	
II . .	618,268	2,865	621,133	480,534	465,974	946,508			1,567,641	
III . .	617,095	3,011	620,106	496,646	449,553	946,199			1,566,305	
IV . .	630,190	3,157	633,347	471,385	517,866	989,251	25,988	1,015,239	1,622,598	1,648,586
1953 I . .	622,134	3,725	625,859	444,608	516,478	961,086			1,586,945	
II . .	612,672	4,293	616,965	423,705	463,219	886,924			1,503,889	
III . .	619,614	3,556	623,170	414,318	416,749	831,067			1,454,237	
IV . .	651,017	2,819	653,836	394,685	440,352	835,037	32,986	868,023	1,488,873	1,521,859
1954 I . .	621,297	3,909	625,206	405,910	475,637	881,547			1,506,753	
II . .	621,573	4,998	626,571	402,596	464,041	866,637			1,493,208	
III . .	648,541	4,295	652,836	405,731	465,507	871,238			1,524,074	
IV . .	683,056	3,592	686,648	398,258	453,977	852,235	28,975	881,210	1,538,883	1,567,858

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NOTES FOR TABLE 1

(1) Annual Report of the Commissioners of Currency, Malaya British Borneo, 1954. Active circulation equals notes issued less those in the vaults of the banks and in those in Government treasuries.

(2) Registrar of Malayan Statistics. Figures for odd quarters are interpolations.

(3) (1) + (2).

(4) and (5) Registrar of Malayan Statistics. Excluding inter-bank deposits but including government accounts.

(6) (4) + (5).

(7) Office of the Commissioner-General for South-east Asia, and collected from the three governments concerned for publication in this report.

(8) (4) + (5) + (7).

(9) (3) + (6). This figure is useful only for comparisons and does not represent any well-defined economic concept.

(10) (3) + (8). This is the money supply of the Malayan currency area. It excludes inter-bank deposits but includes government accounts with the commercial banks.

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TABLE 2

The Money Supply—Malaya, 1949-54

Thousands of Malayan dollars

Period	(1) Currency in circulation (active) in Malaya	(2) Currency in Malaya treasuries	(3) Total currency in hand of non-banking public	(4) Demand deposits in Malaya	(5) Money supply in Malaya
1949 December 31st	254,972	1,401	256,373	564,878	821,251
1950 December 31st	435,612	2,108	437,720	864,890	1,302,610
1951 1st quarter	510,146	2,067	512,213	1,029,182	1,541,395
2nd ,,	531,481	2,025	533,506	1,057,992	1,591,498
3rd ,,	544,938	2,098	547,036	1,108,148	1,655,184
4th ,,	558,815	2,172	560,987	1,054,307	1,615,294
1952 1st quarter	541,604	2,187	543,791	1,051,939	1,595,730
2nd ,,	526,796	2,201	528,997	946,508	1,475,505
3rd ,,	525,759	2,324	528,083	946,199	1,474,282
4th ,,	537,340	2,446	539,786	989,251	1,529,037
1953 1st quarter	530,215	2,992	533,207	961,086	1,494,293
2nd ,,	521,847	3,537	525,384	886,924	1,412,308
3rd ,,	527,987	2,919	530,906	831,067	1,361,973
4th ,,	555,759	2,300	558,059	835,037	1,393,096
1954 1st quarter	529,475	3,205	532,680	881,547	1,414,227
2nd ,,	529,719	4,109	533,828	866,637	1,400,465
3rd ,,	553,570	3,572	557,142	871,238	1,428,380
4th ,,	584,095	3,035	587,130	852,235	1,439,365

TABLE 2—MALAYA

Notes:

(1) Figures are based on the total active circulation less 11·56% of this figure less $20 million. This is purely an estimate, but it is based on the same formula as the profit distribution, and it is probably more useful than the figure for active currency in the Area + demand deposits in Malaya.

(2) Registrar of Malayan Statistics. The figures for odd quarters are interpolated.

(3) (1) + (2).

(4) Registrar of Statistics: excluding inter-bank deposits but including government accounts.

(5) (3) + (4).

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TABLE 3*

The Money Supply and Government Demand Deposits, 1949-54

Thousands of Malayan dollars

End of	GOVERNMENT DEMAND DEPOSITS					(6)	(7)	(8)	(9)
	(1) Singapore	(2) Federation	(3) Malaya (1) + (2)	(4) British Borneo	(5) Total (3) + (4)	Money Supply —Malayan Currency area	Adjusted Money Supply —Malayan Currency area (6) — (5)	Money Supply Malaya	Adjusted Money Supply —Malaya (8) — (3)
1949	22,194	16,424	38,618	4,995	43,613	891,255	847,642	821,251	784,633
1950	21,997	26,559	48,556	8,334	56,890	1,404,832	1,347,942	1,302,610	1,254,054
1951	13,505	40,717	54,222	9,716	63,938	1,742,391	1,678,453	1,615,294	1,561,072
1952	15,323	44,214	59,537	5,083	64,620	1,648,586	1,583,966	1,529,037	1,469,500
1953	9,844	43,178	53,022	10,775	63,797	1,521,859	1,458,062	1,393,096	1,340,074
1954	10,848	49,998	60,848	3,810	64,656	1,567,858	1,503,202	1,439,365	1,378,517

*This table is included for those who think the money supply of an area should not include Government current accounts. As stated in the text, the absence of conscious monetary policy in the Malayan currency area makes the money supply figures in Tables 1 and 2 more economically meaningful. For comparisons with other areas, perhaps this table will have some use.

Notes:

(1) Registrar of Malayan Statistics. The figures exclude the deposits of the City Council.

(2) Registrar of Malayan Statistics. The figures exclude the deposits of the governments of the States and Settlements, of the Central Electricity Board, and of the Malayan Railways.

(4) Office of the Commissioner-General for S.E. Asia.

(6) See Table 1 (10).

(8) See Table 2 (5).

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TABLE 4

Currency Circulation—Malayan Currency Area, 1946-54

Statement of Notes in Circulation

(Issued by the Board of Commissioners of Currency, Malaya and British Borneo)

Net—Gross minus amount held by Treasuries in Singapore, Federation of Malaya, Sarawak, North Borneo and Brunei.

Active—Net minus amount held by banks in the above territories.

	Gross (*a*) $'000	Net (*b*) $'000	Active (*c*) $'000	Percentage of (*c*) to (*a*)
1946 December 31	405,885	404,480	316,178	78
1947 „ 31	412,104	410,327	292,619	71
1948 „ 31	400,939	398,130	301,799	75
1949 „ 31	402,944	400,444	310,914	77
1950 March 31	402,651	399,945	337,402	84
June 30	418,401	416,349	521,521	86
September 30	495,924	493,630	419,032	84
December 31	633,487	630,689	515,165	81
1951 March 31	701,571	698,465	599,441	85
June 30	728,238	725,342	623,565	84
September 30	739,519	737,009	638,781	86
December 31	764,109	761,294	654,472	86
1952 March 31	788,766	786,012	635,011	81
June 30	788,422	785,556	618,268	78
September 30	787,672	784,342	617,095	78
December 31	786,797	783,640	630,190	80
1953 January 31	786,515			
February 28	786,306			
March 31	786,512	782,874	622,134	79
April 30	787,168			
May 31	787,560			
June 30	758,271	753,978	612,672	81
July 31	739,098			
August 31	739,565			
September 30	740,102	736,248	619,614	84
October 31	740,314			
November 30	740,436			
December 31	740,924	738,105	622,458	84
1954 January 31	740,605			
February 28	740,610			
March 31	740,713	735,641	621,297	84
April 30	740,845			
May 31	740,285			
June 30	740,377	735,379	621,573	84
July 31	740,139			
August 31	739,746			
September 30	739,376	735,868	648,541	88
October 31	738,597			
November 30	737,903			
December 31	778,959	775,366	683,056	88

Note.—Figures up to and including 30th June, 1948, include pre-invasion issues. Figures from 30th September, 1948, onwards exclude circulation of pre-invasion issues which ceased to be legal tender with effect from 31st August, 1948.

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TABLE 5

Banking Statistics—Malaya, 1947-1950

Statement of Assets and Liabilities of Singapore Banks, 1947-1950

Thousands of Malayan dollars

Period	ASSETS					LIABILITIES			
	Cash	Treasury Bill	Investment Local	Loans and Advances	Total	Demand Deposits	Fixed Deposits	Savings Accnts.	Total
1947 December	79,411	23,958	57,912	163,719	325,000	328,815	29,544	19,932	378,291
1948 ,,	62,395	22,125	64,028	177,395	325,943	327,294	30,756	21,765	379,815
1949 ,,	55,253	2,672	63,150	233,548	354,623	313,039	32,112	23,389	368,540
1950 ,,	49,102	5,009	69,521	317,629	441,261	460,413	56,997	24,416	541,826

Statement of Assets and Liabilities of Federation of Malaya Banks, 1947-1950

Thousands of Malayan dollars

Period	ASSETS					LIABILITIES			
	Cash	Treasury Bill	Investment Local	Loans and Advances	Total	Demand Deposits	Fixed Deposits	Savings Accnts.	Total
1947 December	36,259	5,993	39,745	59,571	141,568	232,232	11,168	12,149	255,549
1948 ,,	35,065	8,297	46,473	81,961	171,796	254,170	13,614	14,758	282,542
1949 ,,	35,656	4,500	46,479	102,378	189,013	251,839	36,486	14,211	302,536
1950 ,,	63,386	17,800	47,248	143,452	271,886	404,477	56,071	17,901	478,449

Source: Registrar of Malayan Statistics

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TABLE 6—Banking Statistics—Singapore,* 1951-1954

Thousands of Malayan dollars

PERIOD	ASSETS					LIABILITIES					VOLUME OF OPERATIONS		
	Cash	Treasury Bills	Investment Local	Loans & Advances	Total	Demand Deposits	Fixed Deposits	Saving	Margins Held**	Total	Cheques Clearings	Debits Currents	Total
1951													
January	53,544	7,007	69,019	355,157	484,727	511,365	51,692	23,916	—	586,973	1,515,484	1,301,874	2,817,358
February	45,602	8,005	67,771	355,804	477,182	534,700	55,011	24,476	—	614,187	1,239,698	1,250,587	2,490,285
March	41,333	9,004	69,955	385,384	505,676	532,957	58,699	25,196	—	616,852	1,444,815	1,358,321	2,803,136
April	42,447	9,003	70,567	381,496	503,513	523,403	63,755	26,125	—	613,283	1,441,705	1,332,407	2,774,112
May	47,658	9,003	69,740	333,521	459,922	553,154	64,975	26,671	—	644,800	1,310,901	1,320,309	2,631,210
June	44,703	8,913	69,086	309,010	431,712	558,085	63,328	27,995	—	649,408	1,236,301	1,203,027	2,439,328
July	41,425	12,997	69,531	310,251	434,204	548,144	62,534	29,334	—	640,012	1,231,206	1,197,368	2,428,574
August	34,374	12,996	70,329	292,857	410,556	570,963	61,728	30,308	—	662,999	1,267,666	1,163,600	2,431,266
September	34,798	12,996	72,380	308,434	428,608	560,726	61,500	30,840	—	653,066	1,196,372	1,103,227	2,299,599
October	35,424	13,001	71,692	332,983	453,100	549,739	60,928	31,491	—	642,158	1,358,013	1,296,853	2,654,866
November	37,524	15,997	73,702	337,375	464,598	550,149	61,605	31,581	—	643,335	1,415,467	1,197,693	2,613,160
December	45,594	16,002	71,070	333,566	466,232	539,708	61,075	32,326	—	633,109	1,264,105	1,259,885	2,523,990
1952													
January	46,128	14,003	72,866	353,115	486,112	501,810	57,102	32,654	—	591,566	1,149,554	1,004,192	2,153,746
February	55,114	12,004	78,923	369,804	515,845	478,097	58,067	33,438	—	569,602	1,066,266	1,021,966	2,088,232
March	77,549	10,983	77,644	354,497	520,673	512,102	64,418	33,743	—	610,263	1,116,625	1,184,363	2,300,988
April	89,130	6,990	77,637	348,541	522,298	504,111	67,996	34,441	—	606,548	1,051,289	1,012,036	2,063,325
May	101,918	3,997	78,321	339,443	523,679	498,726	74,733	35,436	—	608,895	969,757	991,167	1,960,924
June	101,850	1,999	77,911	337,799	519,559	480,534	76,845	36,980	—	594,359	787,359	856,812	1,644,171
July	109,643	1,999	77,705	343,003	532,350	481,036	77,689	38,380	—	597,105	1,076,164	1,102,750	2,178,914
August	109,381	999	77,771	340,056	528,207	490,130	78,489	39,665	—	608,284	932,949	913,710	1,846,659
September	109,839	985	79,832	331,658	522,314	496,646	73,688	41,280	—	611,614	912,754	953,341	1,866,095
October	111,710	5,985	83,266	329,314	530,275	497,265	74,351	42,939	—	614,555	822,148	939,949	1,762,097
November	115,399	5,985	83,798	355,109	560,291	499,386	71,391	43,125	—	613,902	909,009	885,020	1,794,029
December	95,737	5,985	82,709	355,522	539,953	471,385	72,142	44,150	—	587,677	919,761	914,379	1,834,140
1953													
January	90,816	5,985	84,152	350,458	531,411	465,766	75,118	44,815	—	585,699	963,302	993,932	1,957,234
February	78,737	5,985	85,260	353,004	522,986	459,846	75,759	46,147	—	581,752	790,621	798,794	1,589,415
March	92,738	5,985	85,321	338,135	522,179	444,608	86,129	47,576	—	578,313	856,913	855,195	1,712,108
April	105,276	5,985	85,456	337,323	534,040	445,327	87,269	49,196	—	581,792	779,456	784,639	1,564,095
May	114,561	5,985	83,532	335,505	539,583	439,274	89,419	49,844	—	578,537	788,539	786,708	1,575,247
June	88,912	5,000	83,658	311,420	488,990	423,705	84,078	51,709	16,929	576,421	739,471	751,292	1,490,763
July	74,042	5,000	83,546	321,324	483,912	428,057	81,377	53,126	16,241	578,801	814,294	890,054	1,704,348
August	73,852	5,000	83,687	328,170	490,709	424,203	88,935	53,903	17,757	584,798	687,557	744,714	1,432,271
September	71,434	5,000	83,845	326,116	486,395	414,318	89,294	54,733	18,336	576,681	736,318	767,787	1,504,105
October	72,122	5,000	85,643	325,414	488,179	409,769	86,734	55,741	17,149	569,393	781,115	801,934	1,583,049
November	76,979	5,000	85,638	317,736	485,353	417,538	80,058	56,180	18,250	572,026	714,485	718,449	1,432,934
December	65,370	5,000	85,491	307,943	463,804	394,685	76,209	57,237	20,466	548,597	737,558	807,159	1,594,717
1954													
January	55,579	5,000	86,549	317,630	464,758	391,372	79,026	58,402	21,523	550,323	788,347	829,787	1,618,134
February	55,825	5,000	86,749	312,960	460,534	396,004	79,810	60,119	20,700	556,633	661,417	670,240	1,331,657
March	64,449	5,000	86,155	315,311	470,915	405,910	80,986	61,545	19,373	567,814	776,190	757,808	1,533,998
April	68,496	5,000	86,251	320,113	479,860	414,585	77,715	62,610	20,218	575,128	727,204	749,624	1,476,828
May	70,226	5,000	85,979	312,632	473,837	411,125	76,088	63,233	20,533	570,979	775,697	811,929	1,587,626
June	71,584	5,000	86,531	306,984	470,099	402,596	73,138	65,222	22,622	563,578	703,219	755,074	1,458,293
July	65,933	5,000	86,738	310,015	467,686	403,249	72,529	65,905	21,965	563,648	819,136	882,456	1,701,592
August	60,888	5,000	87,177	314,087	467,152	410,944	73,008	66,306	20,658	570,916	752,956	852,978	1,605,934
September	46,946	5,000	87,825	327,237	467,007	405,731	75,448	67,182	19,705	568,066	765,747	829,987	1,595,734
October	38,110	5,000	87,621	329,462	460,193	406,417	77,324	68,030	20,869	572,640	783,780	828,929	1,612,709
November	27,072	5,000	89,627	333,214	454,913	419,270	75,765	68,835	21,744	585,634	826,235	848,012	1,674,247
December	40,483	5,000	89,888	328,592	463,963	398,258	71,301	70,811	22,745	563,115	820,075	885,631	1,705,706

*Singapore Banks include banks with offices in Singapore only.
**Margins Held include sundry deposits in the months prior to June, 1953, they were included under Demand Deposits.

Source: Registrar of Malayan Statistics

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TABLE 7—**Banking Statistics—Federation of Malaya, 1951-1954**

Thousands of Malayan dollars

PERIOD	ASSETS					LIABILITIES					VOLUME OF OPERATIONS		
	Cash	Treasury Bill	Investment	Loan and Advances	Total (2)+(3)+(4)+(5)	Demand Deposits	Fixed Deposits	Saving Accounts	Margins Held and Sundry Deposits	Total (7)+(8) (9)+(10)	Cheques for Clearing	Debit Current Deposit Account	Total (12)+(13)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1951													
January	62,521	17,400	50,384	168,549	298,854	436,583	56,580	17,978	—	511,141	625,821	1,052,766	1,678,587
February	55,925	17,500	50,342	195,503	319,270	449,371	56,881	18,422	—	524,674	530,768	967,541	1,498,309
March	53,656	18,000	50,757	199,489	321,902	496,225	59,414	25,050	—	580,689	678,545	1,050,772	1,729,317
April	59,001	18,000	50,796	173,005	300,802	504,936	60,885	19,964	—	585,785	590,467	1,126,058	1,716,525
May	66,846	18,500	50,804	144,328	280,478	512,239	61,243	20,514	—	593,996	602,530	1,075,563	1,678,093
June	55,108	18,500	49,282	125,623	248,513	499,907	57,209	21,665	—	578,781	548,422	975,830	1,524,252
July	68,963	19,000	50,864	122,317	261,144	540,511	61,971	23,152	—	625,634	531,787	935,602	1,467,389
August	60,234	22,000	51,472	116,047	249,253	554,238	62,534	24,290	—	641,062	545,174	965,894	1,511,068
September	60,596	21,500	56,705	111,370	250,171	547,422	65,372	24,946	—	637,740	522,476	932,862	1,455,338
October	60,538	20,500	57,402	128,953	267,393	540,359	64,194	25,495	—	630,048	582,821	1,026,877	1,609,698
November	60,051	19,000	57,452	125,092	261,595	535,122	63,581	26,098	—	624,801	581,089	1,026,839	1,607,928
December	59,251	10,000	53,651	117,084	239,986	514,599	64,914	26,675	—	606,188	596,236	1,023,011	1,619,247
1952													
January	57,591	4,500	50,928	143,959	256,978	531,131	65,239	27,133	—	623,483	518,120	1,076,463	1,594,583
February	74,837	4,500	50,598	149,130	279,065	569,686	65,081	27,875	—	662,642	555,080	938,061	1,493,141
March	71,925	5,300	50,595	131,911	259,731	539,837	64,992	28,233	—	633,062	516,047	992,150	1,508,197
April	67,748	5,000	50,537	134,954	258,239	527,487	64,813	28,766	—	621,066	482,665	916,576	1,399,241
May	66,005	5,000	50,162	130,968	252,135	482,862	117,617	29,453	—	629,932	474,035	943,838	1,414,873
June	64,424	5,000	47,324	134,810	251,558	465,974	115,861	30,576	—	612,411	428,399	829,432	1,257,831
July	61,073	4,000	49,793	138,941	253,807	462,236	117,836	31,269	—	611,341	521,196	982,886	1,504,082
August	51,725	4,000	49,775	143,491	248,991	448,463	116,708	32,627	—	597,798	466,690	877,414	1,344,104
September	55,725	3,500	50,798	135,120	245,143	449,553	118,153	34,270	—	601,976	486,952	868,545	1,355,497
October	56,700	9,000	51,975	133,638	251,313	470,435	118,725	34,800	—	623,960	481,315	885,861	1,367,176
November	48,252	8,500	57,275	125,994	240,021	485,274	117,614	35,708	—	638,596	458,657	838,044	1,296,701
December	56,051	8,500	54,410	128,358	247,319	517,866	70,443	36,106	—	624,415	554,587	1,163,339	1,717,926
1953													
January	65,617	8,500	55,792	142,684	272,593	499,723	66,510	36,654	—	602,887	494,413	1,063,399	1,557,812
February	63,397	8,500	56,509	149,700	278,106	507,098	67,026	37,227	—	611,351	454,182	912,187	1,366,369
March	67,924	8,500	56,716	151,236	284,376	516,478	68,520	37,424	—	622,422	473,380	955,486	1,428,866
April	58,654	7,500	56,642	151,595	274,391	489,017	67,395	38,102	—	594,514	443,909	927,303	1,371,212
May	52,580	6,500	56,681	151,591	267,352	457,490	70,722	38,739	—	566,951	424,570	926,004	1,350,574
June	53,738	6,500	56,153	138,749	255,140	463,219	67,081	39,589	1,469	571,358	425,759	927,790	1,353,549
July	43,002	7,000	56,565	140,589	247,156	454,807	66,918	41,001	1,791	564,517	453,004	967,354	1,420,358
August	46,608	7,000	56,343	138,390	248,341	437,209	73,788	41,609	1,451	554,057	412,667	848,261	1,260,928
September	45,447	6,000	56,526	139,473	247,446	416,749	86,247	42,103	1,484	546,583	409,724	817,366	1,227,090
October	45,670	5,500	56,494	135,467	243,131	420,441	82,216	42,167	1,314	546,138	411,195	870,553	1,281,748
November	45,475	5,500	56,453	136,984	244,412	432,653	80,893	42,999	1,478	558,023	371,559	789,541	1,161,100
December	48,419	5,500	57,236	129,270	240,425	440,352	72,636	43,825	2,037	558,850	455,569	977,278	1,432,847
1954													
January	40,127	5,500	59,231	142,019	246,877	460,426	73,406	43,766	1,522	579,120	383,799	851,995	1,235,794
February	50,450	5,500	60,009	147,115	263,074	468,949	73,962	44,179	1,757	588,847	333,983	724,279	1,058,262
March	49,607	5,500	60,207	153,525	268,839	475,637	70,840	44,473	2,168	593,118	412,717	854,371	1,267,088
April	49,699	5,500	60,329	156,502	272,030	458,251	72,321	44,842	1,946	577,360	388,449	805,455	1,193,904
May	36,583	5,500	60,422	164,849	267,354	443,828	72,227	45,568	2,290	563,913	401,601	951,826	1,353,427
June	41,589	5,500	60,829	154,487	262,405	464,041	66,943	46,732	1,921	579,637	392,033	835,164	1,227,197
July	35,475	5,500	60,633	156,064	257,672	465,868	73,828	47,322	2,406	589,424	399,567	855,399	1,254,966
August	38,221	5,500	61,749	154,610	260,080	465,769	83,930	47,788	2,328	599,815	382,342	781,573	1,163,915
September	39,468	5,500	60,942	154,387	260,297	465,507	85,765	48,089	2,253	601,614	412,225	834,708	1,246,933
October	38,549	—	61,697	154,979	255,225	466,282	79,667	48,727	2,180	596,856	418,489	847,900	1,266,389
November	36,709	5,000	61,600	158,929	262,238	455,336	78,924	49,609	2,393	586,262	397,636	867,800	1,265,436
December	50,359	5,000	61,684	161,867	278,910	453,977	82,994	50,751	2,515	590,237	489,413	1,006,535	1,495,948

Source: Registrar of Malayan Statistics

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TABLE 8

Currency Notes in Government Treasuries, 1949-1954

Date	Singapore	Federation of Malaya	Sarawak	North Borneo	State of Brunei	Total
1949						
30th June .	40,490·68	1,275,686·33	522,716·32	374,952·00	2,191·05	2,216036,·38
31st December	25,188·48	1,375,714·96	809,343·64	285,371·00	3,984·50	2,499,602·58
1950						
30th June .	132,912·72	1,260,550·44	457,369·66	192,111·51	9,727·95	2,052,672·28
31st December	20,035·07	2,087,995·61	507,631·15	176,638·60	5,916·00	2,798,216·43
1951						
30th June .	107,904·73	1,917,359·34	686,433·84	181,740·43	2,630·45	2,896,068·79
31st December	23,195·69	2,148,965·54	455,557·21	178,209·65	9,020·30	2,814,948·39
1952						
30th June .	59,506·16	2,140,745·94	444,979·31	198,418·85	21,652·45	2,865,302·71
31st December	36,585·42	2,408,974·82	494,283·17	188,716·45	28,496·00	3,157,055·86
1953						
30th June .	114,607·63	3,422,414·58	424,058·13	308,200·80	23,513·30	4,292,794·44
31st December	53,688·84	2,246,157·73	347,445·09	143,343·75	28,496·00	2,819,131·41
1954						
30th June .	78,776·75	4,029,571·31	643,848·13	243,838·40	1,642·10	4,997,676·69
31st December	66,978·56	2,968,365·53	363,176·64	178,966·25	14,849·00	3,592,335·98

Source: Registrar of Malayan Statistics

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TABLE 9

Money and Prices in Malaya, 1949-54

(1) End of	(2) Money Supply Malaya—British Borneo ($'000)*	(3) Money Supply in Malaya ($'000)*	(4) Rubber R.S.S. No. 1 Singapore per lb. (cents) (average)	(5) Tin per picul Singapore (ex-works) ($) (average)	INDICES (1948 = 100)			
					(6) Unit value of exports	(7) Unit value of imports	C.O.L. of Chinese in the Federation	
							(8) All Items	(9) Rice and rice equivalent
1949 .	891,255	821,251	38·19	294·48			94	90
1950 .	1,404,832	1,302,610	108·18	366·92	173	115	101	84
1951 .	1,742,391	1,615,294	169·55	526·58	258	144	133	89
1952 .	1,648,586	1,529,037	96·07	480·08	188	129	138	95
1953 .	1,521,859	1,393,096	67·44	363·92	143	119	133	100
1954 .		I 1,414,227	67·29	353·51	I 129	I 110	126	91
		II 1,400,465			II 139	II 110		
		III 1,428,380			III 141	III 107		
	IV 1,567,858	IV 1,439,365			IV 150	IV 107		

* Figures in these two columns were taken on

Notes:

(2) See Table 1 (10).

(3) See Table 2 (5).

(4) and (5) Federation of Malaya, Statistical Bulletin, p. G2. These are average prices for the year.

(6) and (7) United Nations, Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East*. The figures from 1953, though linked to previous figures, have different treatment in imports and exports of petroleum products.

(8) and (9) United Nations, *ibid*, pertains to the Federation of Malaya only. The original base was January, 1947. Separate indices are available in this source for the Indian and Malay communities.

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TABLE 10

Value of Primary Products Exported and Percentage to Total Exports—Malaya

Millions of Malayan dollars

	1950		1951		1952		1953		1954		1955 (Jan.–June)	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Rubber	1,836·5	45·7	2,706·1	44·6	1,390·4	35·4	926·9	30·7	963·5	31·0	732·6	39·2
Tin	473·5	11·8	577·9	9·6	515·6	13·2	391·3	13·0	414·6	13·3	208·0	11·1
Other primary products . .	117·8	2·9	142·5	2·3	120·0	3·1	123·4	4·1	169·6	5·5†	78·8	4·2
Sum of primary products .	2,427·8	60·4	3,426·4	56·4	2,025·9	51·7	1,441·5	47·8	1,547·7	49·8	1,019·4	54·6
Other exports . . .	1,588·0	39·6	2,650·1	43·6	1,892·6	48·3	1,578·6	52·2	1,561·5	50·2	849·0	45·4
Total exports . . .	4,015·8	100·0	6,076·5	100·0	3,918·5	100·0	3,020·1	100·0	3,109·2	100·0	1,868·4	100·0

Source: Malayan Statistics—External Trade

Notes.—Excepting Total exports, figures on primary products relate to net exports.
'Other primary products' comprises fruits preserved, coffee, tea and mate, hides and skins undressed, wood shaped or worked, fertilizers crude, animal materials n.e.s., vegetable oils, precious stones.

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TABLE II

Value of Main Primary Products Exported and Percentage to Total Exports—Federation of Malaya

Millions of Malayan dollars

	1950			1951			1952			1953			1954			1955 (Jan.-June)		
	Value	%	% to item (6)	Value	%	% to item (6)	Value	%	% to item (6)	Value	%	% to item (6)	Value	%	% to item (6)	Value	%	% to item (6)
1. Rubber	1,678·3	76·2	67·8	2,226·9	79·4	70·4	1,241·1	67·0	59·4	869·9	63·6	55·3	859·5	62·7	54·3	657·7	72·3	64·4
2. Tin (metal and concentrates) .	382·8	17·4	15·4	396·3	14·1	12·6	465·1	25·1	22·3	347·1	25·4	22·1	357·5	26·1	22·6	176·0	19·4	17·2
3. Other main primary products *a* .	140·6	6·4	5·7	180·0	6·4	5·7	147·4	8·0	7·1	151·4	11·1	9·6	153·6	11·2	9·7	75·4*b*	8·3	7·4
4. Sum of main primary products .	2,201·7	100·0	88·9	2,803·2	100·0	88·7	1,853·6	100·0	88·8	1,368·4	100·0	87·0	1,370·6	100·0	86·7	909·1	100·0	89·0
5. Other exports (6)–(4) . . .	274·5		11·1	358·1		11·3	234·7		11·2	203·7		13·0	211·1		13·3	112·6		11·0
6. Total exports (less re-exports of main primary products) . .	2,476·2		100·0	3,161·3		100·0	2,088·3		100·0	1,572·1		100·0	1,581·7		100·0	1,021·7		100·0
7. Total exports including re-exports .	2,607·9			3,379·0			2,134·3			1,598·2			1,625·4			1,047·3*c*		

Source: Monthly Statistical Bulletin of the Federation of Malaya.

Excepting item (7), all figures relate to net exports.

a Comprising copra, coconut oil, palm oil, palm kernels, pineapple, timber, and iron ore.
b Figures on pineapple relate to five months only.
c Estimate based on five months' figure.

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TABLE 12

Value of Main Primary Products Exported and Percentage to Total Exports—Brunei

Thousands of Malayan dollars

	1950		1951		1952		1953		1954	
	Value	%	Value	%	Value	%	Value	%	Value	%
Crude oil	...	...	262,814	94·0	270,684	94·2	263,962	93·4	262,206	95·9
Rubber	...	...	8,037	2·9	3,785	1·3	1,699	0·6	1,181	0·4
Other main primary products *a* . .	...	...	987	0·4	1,164	0·4	1,057	0·4	1,073	0·4
Sum of main primary products . .	...	...	271,838	97·2	275,633	95·9	266,718	94·4	264,460	96·7
Other exports	...	...	7,804	2·8	11,845	4·1	15,875	5·6	9,017	3·3
Total exports	...	...	279,642	100·0	287,478	100·0	282,593	100·0	273,477	100·0

Source: State of Brunei Annual Reports for 1951–1954.

Note:

a Comprising Firewood, mangrove, Julutong rubber, and natural gas.

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TABLE 13

Value of Primary Products Exported and Percentage to Total Exports—North Borneo

Thousands of Malayan dollars

	1950		1951		1952		1953		1954	
	Value	%	Value	%	Value	%	Value	%	Value	%
Rubber	59,863	65·1	86,194	75·8	39,099	60·4	23,378	38·8	23,963	31·0
Timber	6,534	7·1	10,184	9·0	8,282	12·8	12,314	20·5	17,438	22·6
Other main primary products *a*	12,408	13·5	14,164	12·4	12,857	19·9	12,891	21·4	17,099	22·1
Sum of main primary products	78,805	85·7	110,542	97·2	60,238	93·1	48,583	80·7	58,500	75·7
Other exports	13,195	14·3	3,158	2·8	4,462	6·9	11,617	19·3	18,733	24·3
Total exports, domestic	92,000	100·0	113,700	100·0	64,700	100·0	60,200	100·0	77,233*b*	100·0

Sources: Prior to 1954, Annual Reports of North Borneo for the years 1950–1953. For 1954, Trade Statistics for the year 1954.

Notes: Figures relate to net exports.

a Other main primary products comprise copra, firewood, tobacco, cutch, and hemp.

b Including re-exports.

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TABLE 14

Value of main Primary Products Exported and Percentage to Total Exports—Sarawak

Thousands of Malayan dollars

	1950		1951		1952		1953		1954	
	Value	%	Value	%	Value	%	Value	%	Value	%
Rubber	113,942	64·9	158,865	64·7	65,182	38·8	31,616	19·7	31,078	19·0
Pepper	4,107	2·3	17,925	7·3	33,032	19·7	49,443	30·8	43,688	26·7
Other main primary products[a] . .	47,794	27·2	58,062	23·6	54,488	32·5	59,396	36·9	65,063	39·8
Sum of main primary products . .	165,843	94·5	234,852	95·6	152,702	91·0	140,455	87·4	139,829	85·5
Other exports	9,664	5·5	10,683	4·4	15,177	9·0	20,311	12·6	23,808	14·5
Total exports, domestic[b] . . .	175,507	100·0	245,535	100·0	167,879	100·0	160,766	100·0	163,637	100·0

Sources: Sarawak Annual Reports, for years 1950–1954, Department of Trade and Customs, Annual Statistics for 1954.

Notes:

a Comprising sago flour, copra, jelutong, timber sawn and lags, illipe nuts and petroleum (net exports). Figures on net export of petroleum are obtained by subtracting value of crude oil piped from Brunei from value of exports of crude and refined petroleum.

b Figures obtained through subtracting value of crude oil piped from Brunei from total exports including re-exports.

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TABLE 15

The Direction of Malaya's International Trade

Quarterly Averages

Millions of U.S. dollars

Year	All countries		E.C.A.F.E. Region (including Japan)		Japan		Western Europe		U.K.		Eastern Europe		North America		U.S.A.		Latin American Republics		Oceania		Sterling Area		E.C.A.F.E. Sterling Area	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1948 .	203·2	210·4	49·8	96·9	2·3	1·6	58·6	49·6	28·2	40·5	14·5	1·6	60·0	27·4	53·8	24·6	1·6	1·2	14·1	22·4	61·1	89·4	15·5	20·8
1950 .	328·0	238·1	83·9	153·7	9·4	7·6	103·2	56·7	44·6	41·3	14·0	1·0	94·9	8·8	85·6	7·2	5·4	0·4	14·2	9·4	100·4	98·4	35·1	45·6
1951 .	496·3	388·4	118·0	242·0	12·8	19·9	185·6	100·1	99·3	64·4	17·2	1·5	113·0	20·9	97·5	17·8	16·2	0·3	28·2	12·0	182·6	139·1	45·6	58·4
1952 .	320·0	316·3	91·3	181·6	12·6	20·4	120·7	90·7	66·6	66·9	8·3	0·9	60·1	18·0	53·6	14·9	4·7	0·3	15·8	13·6	116·0	131·2	28·6	46·0
1953 .	246·6	263·6	77·2	153·0	12·8	10·5	81·7	72·9	39·6	53·5	4·2	1·6	45·1	12·7	39·2	11·4	4·7	0·2	16·4	13·2	91·9	110·6	30·8	38·1
1954 .	263·0	256·4	73·4	147·5	13·5	12·0	89·4	72·4	36·9	49·1	4·0	1·1	44·0	13·4	37·6	12·2	6·7	0·2	16·8	11·4	92·7	94·1	32·6	27·9

Source: E.C.A.F.E., Economic Survey, 1954

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TABLE 16

Value of Malaya's Imports and Exports by Principal Commodities and/or Commodity Groups

Monthly Averages

Millions of Malayan dollars

	1938	1948	1951	1952	1953	1954
IMPORTS—						
Cotton yarn and manufactures	2.2	17.9	30.0	18.2	17.8	15.7
Machinery and vehicles	3·1	9·9	22·9	27·9	18·2	15·5
Base metals and manufactures thereof	1·6	4·7	15·0	14·8	12·6	11·4
Electrical goods and apparatus	0·5	2·4	5·2	5·6	5·4	...
Food	11·9	48·2	82·0	84·2	79·4	64·9
EXPORTS—						
Food	4·7	11·2	28·4	27·9	21·0	25·5
Rubber	23·2	73·2	330·1	157·6	103·2	110·7
Tin (block, ingots, bars or slabs)	8·0	17·9	48·2	43·0	32·6	34·6

Source: E.C.A.F.E., Economic Survey

TABLE 17

Value of Malaya's Imports and Exports and Balance of Trade

Monthly Averages

Millions of Malayan dollars

	1938	1948	1951	1952	1953	1954
Imports	46	149	396	323	270	262
Exports	50	147	506	326	252	259
Balance	+ 4	— 2	+110	+ 3	— 18	— 3

Source: E.C.A.F.E., Economic Survey

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TABLE 18

Nominal Circulation of Malayan Currency on the 31st December, 1954

	$ c.
Notes	778,958,620 46
Nickel coin (5 cent pieces)	110,100 00
Cupro-Nickel coin— 5 cent pieces	2,690,300 05
Cupro-Nickel coin—10 cent pieces	8,817,603 30
Cupro-Nickel coin—20 cent pieces	9,173,200 20
Cupro-Nickel coin—50 cent pieces	1,861,000 00
Copper and Bronze coin	3,934,306 78
	805,545,130 79

TABLE 19

Post-Liberation Currency Notes in Circulation as at 31st December, 1954, by Denominations

Denomination	Number of pieces of notes	Value	Percentage of value to value of total circulation
		$ c.	%
1 cent notes	21,223,036	212,230 36	·03
5 cent notes	17,698,738	884,936 90	·11
10 cent notes	20,372,300	2,037,230 00	·26
20 cent notes	2,938,576	587,715 20	·08
50 cent notes	5,441,673	2,720,836 50	·35
$1 notes	38,775,271½*	38,775,271 50	4·98
$5 notes	13,618,646	68,093,230 00	8·74
$10 notes	46,637,252	466,372,520 00	59·87
$50 notes	1,602,213½*	80,110,675 00	10·29
$100 notes	740,239¾*	74,023,975 00	9·50
$1,000 notes	31,890	31,890,000 00	4·09
$10,000 notes	1,325	13,250,000 00	1·70
	169,081,160¾*	778,958,620 46	100·00

*A fraction indicates a mutilated note for which full value was not given in exchange.

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TABLE 20

Notes Withdrawn from Circulation and Destroyed during 1954

Denomination	POST LIBERATION NOTES		PREOCCUPATION NOTES		Total No. of pieces	Total Value
	No. of pieces	Value	No. of pieces	Value		
		$ c.		$ c.		$ c.
1 cent notes	35,266	352 66	...	...	35,266	352 66
5 cent notes	1,579,921	78,996 05	...	...	1,579,921	78,996 05
10 cent notes	7,873,375	787,337 50	3,539½*	353 95	7,876,914½*	787,691 45
20 cent notes	664,164	132,832 80	...	...	664,164	132,832 80
25 cent notes	...	...	4,910	1,227 50	4,910	1,227 50
50 cent notes	7,642,815½*	3,821,407 75	...	...	7,642,815½*	3,821,407 75
$1 notes	14,153,639½*	14,153,639 50	9,524½*	9,524 50	14,163,164	14,163,164 00
$5 notes	4,936,771	24,683,855 00	2,384	11,920 00	4,939,155	24,695,775 00
$10 notes	8,483,621½*	84,836,215 00	5,551	55,510 00	8,489,172½*	84,891,725 00
$50 notes	109,688	5,484,400 00	46	2,300 00	109,734	5,486,700 00
$100 notes	30,537½*	3,053,750 00	46	4,600 00	30,583½*	3,058,350 00
$1,000 notes	12,938	12,938,000 00	1	1,000 00	12,939	12,939,000 00
$10,000 notes	759	7,590,000 00	...	...	759	7,590,000 00
	45,523,496	157,560,786 26	26,002	86,435 95	45,549,498	157,647,222 21

*A fraction indicates a mutilated note for which only half value was allowed in exchange.

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TABLE 21

Income Account for the Year ended 31st December, 1954

EXPENDITURE	$ c.	$ c.
To Cost of Printing Notes	843,939 47	
„ Inspection charges	14,102 85	
„ Freight (Crown Agents)	47,529 33	
„ Insurance Premia	21,619 44	
„ Crown Agents Commission	35,050 39	
„ Carriage and Escort	41,939 89	
„ Cost of Boxes, etc.	1,435 15	
„ Cost of Police Guards	58,044 00	
„ Salaries	289,266 18	
„ Allowances and Gratuities	9,944 76	
„ Rent Allowance	10,916 70	
„ Cost of services rendered by Governments of Federation of Malaya, Singapore and Borneo territories	92,106 66	
„ Audit Fees	2,400 00	
„ Stationery	2,729 23	
„ Miscellaneous expenses	6,323 27	
„ Special expenditure	2,585 80	
„ Contributions towards the Employees Provident Fund	2,190 44	
		1,482,123 56
„ Balance carried forward		24,385,222 23
		25,867,345 79
„ Currency Fund being annual appropriation of 1 per cent.		8,674,033 00
„ Surplus transferred to Malaya and British Borneo Currency Surplus Fund		15,711,189 23
		24,385,222 23

INCOME UNDER CLAUSE 7 (i) FIRST SCHEDULE	$ c.
By Interest on Banks and other deposits	1,498,847 60
„ Dividends on Investments	24,177,563 65
„ Commission on T.T. London	190,934 54
	25,867,345 79
„ Balance brought down	24,385,222 23
	24,385,222 23

T. M. HART,
Chairman, Board of Commissioners of Currency, Malaya and British Borneo, Singapore.

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TABLE 22

Currency Fund

Balance Sheet as at 31st December, 1954

Liabilities			Amount in dollars	Corresponding amount in sterling
			$ c.	£ s. d.
Notes in circulation			778,958,620 46	90,878,505 14 5
Nickel coins in circulation			110,100 00	12,845 0 0
Cupro-nickel coins in circulation			22,542,103 55	2,629,912 1 7
Copper and Bronze coins in circulation			3,934,306 78	459,002 9 2
			805,545,130 79	93,980,265 5 2
Sundry Creditors			19,885 56	2,319 19 8
Reserve to cover redemption of pre-invasion notes			573,411 45	66,898 0 1
MALAYA AND BRITISH BORNEO (CURRENCY SURPLUS) FUND				
Surplus for the year 1954			15,711,189 23	1,832,972 1 6
EXCESS OF ASSETS OVER LIABILITIES ACCOUNT				
	$ c.	$ c.		
Balance as at 31st December, 1953		45,552,814 15		
Add:—				
Appreciation in the market value of investments	13,806,779 39			
Profit on sale of Investments	3,507,277 24			
Profit on melting	256,211 07			
		17,570,267 70		
		63,123,081 85		
Less:—				
Depreciation on Fixed Asset	753 40			
Loss on sale of investments	478,794 71			
Expenses on minting	1,328,859 43			
Adjustment account for Bullion value of silver coins in excess of face value written off	29,916 79			
		1,838,324 33		
		61,284,757 52		
Add:—				
Annual appropriation of 1% from Income Account		8,674,033 00		
			69,958,790 52	8,161,858 17 10
			891,808,407 55	104,044,314 4 3

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TABLE 22

Currency Fund

Balance Sheet as at 31st December, 1954

Assets	Nominal value of investments	Coin, face value, investments at cost	*Value in dollars on 31st December, 1954	Corresponding value in sterling
	£ s. d.	$ c.	$ c.	£ s. d.
FIXED ASSET				
House for Assistant Cashier, Penang, at cost less depreciation		14,314 67	14,314 67	1,670 0 10
LIQUID PORTION				
Currency Fund sterling account London (Deposits) . .		108,899,612 71	108,899,612 71	12,704,954 16 4
Unsorted silver coin (Face value)		94,100 00	94,100 00	10,978 6 8
		108,993,712 71	108,993,712 71	12,715,933 3 0
Cash at Bank, Singapore . .		612 38	612 38	71 8 11
Cash in Hand . . .		700 00	700 00	81 13 4
Advances		1,061 00	1,061 00	123 15 8
Sundry Debtors . . .		5 00	5 00	11 8
		2,378 38	2,378 38	277 9 7
INVESTMENT PORTION				
Sterling Securities . . .	91,871,360 4 11	777,856,920 61	782,798,001 79	91,326,433 10 10
			891,808,407 55	104,044,314 4 3

*Investments average mean quotation (Stock Exchange Daily List of 31st December, 1954).

T. M. HART,
Chairman, Board of Commissioners of Currency.
Malaya and British Borneo, Singapore.

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TABLE 23

Malaya and British Borneo (Currency Surplus) Fund Balance Sheet as at 31st December, 1954

Liabilities			Assets	
	$ c.	$ c.		$ c.
Undistributed surplus as at 31st December, 1953	1,235,677 46		Surplus for the year 1954 held in Currency Fund	15,711,189 23
Interest on Deposits	16,789 33			
Surplus for the year 1953 transferred from Currency Fund	16,830,334 46			
	18,082,801 25			
Less: Payments made to various Governments in respect of 1953 surplus, etc.	18,082,801 25	—		
Accrued surplus for the year 1954, awaiting transfer from Currency Fund		15,711,189 23		
		15,711,189 23		15,711,189 23

T. M. HART,
Chairman, Board of Commissioners of Currency, Malaya and British Borneo, Singapore.

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TABLE 24

Statement of Investments held by the Currency Commissioners on 31st December, 1954

Cost			Nominal Value of Stock			Description	*Latest known market prices of December, 1954	Value of Stock		
£	s.	d.	£	s.	d.			£	s.	d.
19,346	2	3	21,855	0	0	Aberdeen Corporation 3% Stock (1953–63)	99	21,636	9	0
20,450	0	0	20,000	0	0	Ayr County Council 3% Stock (1956)	100	20,000	0	0
11,251	4	0	12,000	0	0	Ayr County Council 3½% Stock (1954–64)	100	12,000	0	0
13,251	1	11	13,500	0	0	Blackpool 3% Stock (1957)	100	13,500	0	0
10,669	0	0	11,500	0	0	Blackpool 3% Stock (1960)	100	11,500	0	0
23,507	4	7	22,202	16	3	Blackpool 3½% Stock (1962)	101	22,424	16	10
1,126	16	0	1,200	0	0	Blackburn 3½% Stock (1962)	101½	1,218	0	0
87,175	2	3	89,036	5	8	Birmingham 3¼% Stock (1957–62)	100	89,036	5	8
937	14	0	1,000	0	0	Birmingham 3% Stock (1956–58)	100	1,000	0	0
107,323	18	4	3,712	2	2	British Guiana Demarara Rly. Perm. Annuities	23	85,378	9	10
16,072	19	6	16,100	0	0	British Guiana 3½% Stock (1962–72)	92½	14,892	10	0
64,100	12	9	62,843	15	3	British Guiana 3% Stock (1959–69)	90½	56,873	12	1
158,415	13	0	158,825	10	5	British Guiana 3% Stock (1975–80)	85½	135,795	16	5
195,821	5	0	200,383	11	7	British Guiana 3½% Stock (1966–68)	96½	193,370	3	1
199,752	0	0	200,000	0	0	British Electricity 3½% Stock (1976–79)	98½	197,000	0	0
581,504	0	0	600,000	0	0	British Electricity 3% Stock (1968–73)	95	570,000	0	0
85,409	5	5	87,429	6	6	British Electricity 3% Stock (1974–77)	93½	81,746	8	5
573,670	9	9	599,751	7	2	British Transport 3% Stock (1968–73)	94½	566,765	0	8
25,593	15	0	25,000	0	0	Bristol 3½% Stock (1960–70)	99½	24,875	0	0
29,784	10	0	33,000	0	0	Bristol 3% Stock (1958–63)	99	32,670	0	0
1,071,875	0	0	1,000,000	0	0	British Gas 4% Guaranteed Stock (1969–72)	106½	1,065,000	0	0
2,297,037	13	9	3,179,339	15	0	*Carried forward*		3,216,682	12	0

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
2,297,037 13 9	3,179,339 15 0	*Brought forward* .		3,216,682 12 0
278,125 0 0	250,000 0 0	British Electricity 4½% Guaranteed Stock (1974–79)	108½	271,250 0 0
24,542 16 8	25,509 14 11	Barnsley 3½% Stock (1953–63)	101	25,764 16 10
34,389 0 7	35,487 1 6	Bootle 3½% Stock (1958–62)	100	35,487 1 6
30,166 19 10	30,948 2 7	Barking 3½% Stock (1954–59)	101½	31,412 7 0
2,074 0 11	2,288 17 7	Birkenhead 3% Stock (1952–55)	100½	2,300 6 6
19,532 6 6	20,300 0 0	Birkenhead 3% Stock (1957)	101½	20,604 10 0
25,656 5 0	25,000 0 0	Bradford 3½% Stock (1960–70)	98	24,500 0 0
10,970 15 6	11,500 0 0	Bradford 3% Stock (1956–58)	100	11,500 0 0
9,438 10 0	10,000 0 0	Brighton Corporation 3% Stock (1955–58)	100½	10,050 0 0
955 4 0	1,000 0 0	Bournemouth 3¼% Stock (1958–62)	100	1,000 0 0
42,273 4 1	43,264 15 10	Commonwealth of Australia 3½% Stock (1954–59)	101	43,697 8 9
641,209 12 6	691,647 19 1	Commonwealth of Australia 3% Stock (1955–58)	100	691,647 19 1
32,375 0 0	35,000 0 0	Commonwealth of Australia 2½% Stock (1970–75)	87½	30,625 0 0
537,190 11 4	546,225 1 4	Commonwealth of Australia 4½% Stock (1960–62)	105	573,536 6 5
98,053 19 8	100,533 10 10	Commonwealth of Australia 3¼% Stock (1956–61)	99	99,528 4 2
87,025 7 3	95,000 0 0	Commonwealth of Australia 3¼% Stock (1964–74)	93½	88,825 0 0
44,910 4 6	42,476 15 8	Commonwealth of Australia 4% Stock (1961–64)	101	42,901 11 0
389,459 4 9	374,558 3 8	Commonwealth of Australia 3½% Stock (1961–66)	99	370,812 12 0
631,189 12 0	622,757 12 6	Commonwealth of Australia 3¼% Stock (1965–69)	94	585,392 3 4
6,236,574 19 10	6,142,838 0 6	*Carried forward* .		1,500,541 18 4

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
6,236,574 19 10	6,142,838 0 6	*Brought forward*		1,500,541 18 4
521,267 5 10	541,817 3 7	Commonwealth of Australia 3% Stock (1958–60)	98½	533,689 18 5
394,919 9 7	407,960 11 8	Commonwealth of Australia 2¾% Stock (1967–71)	90½	369,204 6 7
329,616 19 1	329,876 12 0	Commonwealth of Australia 3% Stock (1963–65)	95½	315,032 3 1
20,511 19 0	20,585 19 7	Commonwealth of Australia 3% Stock (1965–67)	94½	19,453 15 0
21,917 19 0	21,917 19 0	Commonwealth of Australia 3% Stock (1972–74)	91½	20,054 18 6
43,903 12 4	43,903 12 4	Commonwealth of Australia 3% Stock (1975–77)	91	39,952 5 10
5,764 2 1	5,896 15 8	Commonwealth of Australia 4% Stock (1955–70)	99½	5,867 6 0
203,736 13 5	188,791 12 5	Ceylon 4½% Stock (1965)	104½	197,287 4 11
163,316 6 2	148,450 12 1	Ceylon 5% Stock (1960–70)	103½	153,646 7 6
57,232 2 3	54,757 8 1	Ceylon 3¼% Stock (1959)	98½	53,936 0 10
340,250 14 7	341,917 2 7	Ceylon 3% Stock (1959–64)	93½	319,692 10 4
35,125 2 4	34,552 2 1	Ceylon 3½% Stock (1954–59)	99½	34,379 6 10
2,299,710 5 6	2,360,565 13 3	Consolidated 4% Loan (1957 or after)	96½	2,277,945 17 3
8,531 19 9	8,364 13 11	Cardiff 3% Stock (1952–55)	100	8,364 13 11
64,542 1 3	67,544 19 6	Cardiff 3% Stock (1956–58)	100	67,544 19 6
23,642 10 4	25,468 15 1	Cardiff 2½% Stock (1966–71)	91½	23,303 18 2
2,441 10 0	2,453 15 4	Coventry 2¾% Stock (1917–57)	100½	2,466 0 9
12,308 3 4	13,078 4 7	Coventry 3% Stock (1956–58)	101½	13,274 8 1
31,346 10 0	30,963 13 7	Coventry 3½% Stock (1960–64)	101	31,273 6 4
25,788 12 0	26,600 0 0	Croydon 3% Stock (1956–58)	100	26,600 0 0
10,842,449 7 8	10,818,304 16 10	*Carried forward*		10,690,487 6 5

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost			Nominal Value of Stock			Description	*Latest known market prices of December, 1954	Value of Stock		
£	s.	d.	£	s.	d.			£	s.	d.
10,842,449	7	8	10,818,304	16	10	*Brought forward* .		10,690,487	6	5
9,219	15	0	10,000	0	0	Chesterfield 3% Stock (1960)	100	10,000	0	0
39,544	7	8	39,493	1	9	Chichester 3½% Stock (1958–63)	101	39,888	0	4
312,936	5	2	346,829	2	1	Cyprus 3½% Stock (1969–71)	96	332,955	18	10
41,819	13	1	41,598	13	3	Cyprus 4% Stock (1956–66)	101½	42,222	12	10
14,718	15	0	15,000	0	0	Coventry 3½% Stock (1954–59)	100½	15,075	0	0
2,938,902	18	11	2,849,386	4	11	Conversion Stock 3½% (1969)	102½	2,920,620	18	0
21,038	17	0	22,000	0	0	Dundee 3½% Stock (1953–63)	101	22,220	0	0
12,859	7	6	12,500	0	0	Derby 3½% Stock (1960–70)	98	12,250	0	0
14,138	18	0	15,000	0	0	Derby 3½% Stock (1953–63)	101	15,150	0	0
11,849	6	11	12,362	8	5	Dewsbury Corporation 3% Stock (1958–63)	99	12,238	15	11
720,743	0	10	726,840	16	9	East Africa High Commission 4½% Stock (1964–69) . . .	104	755,914	9	5
941,428	4	4	1,027,668	10	7	East Africa High Commission 3½% Stock (1968–70) . . .	96½	991,700	2	7
770,766	16	4	772,891	15	4	East Africa High Commission 3½% Stock (1966–68) . . .	96½	745,840	11	1
25,718	15	0	25,000	0	0	Essex 3½% Stock (1960–70)	98	24,500	0	0
2,855,035	11	7	2,863,838	0	3	Exchequer 3% Stock (1960)	104½	2,992,710	14	6
1,563,437	10	0	1,500,000	0	0	Exchequer 3% Stock (1962–63)	103	1,545,000	0	0
504,122	4	4	500,000	0	0	Exchequer 2¼% Stock 1955 (Assented Exchequer 1960) . . .	98¾	493,750	0	0
21,630,729	13	4	21,598,713	10	2	*Carried forward* .		21,662,524	9	11

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
21,630,729 13 4	21,598,713 10 2	*Brought forward* .		21,662,524 9 11
1,445,788 10 7	1,291,625 15 6	Funding 4% Loan (1960–90)	103	1,330,374 11 0
896,640 6 11	906,042 7 6	Funding 3% Loan (1959–69)	97	878,861 2 1
13,356,904 12 1	13,679,543 16 7	Funding 2½% Loan (1956–61)	100	13,679,543 16 7
2,116,298 6 3	2,164,937 2 5	Funding 3% Loan (1966–68)	98	2,121,638 7 7
349,609 15 0	354,575 4 0	Funding 2¾% Loan (1952–57)	100⅛	356,348 1 6
49,718 15 0	50,000 0 0	Federation of Rhodesia and Nyasaland 4% Stock (1972–74) . . .	101½	50,750 0 0
3,077,484 7 6	3,000,000 0 0	Funding Stock (Serial) 3% (1955)	100¾	3,022,500 0 0
1,689,961 3 5	1,661,772 19 1	Funding Stock (Serial) 2¼% (1957)	100	1,661,772 19 1
97,750 0 0	100,000 0 0	Grenada 4½% Stock (1969–76)	106½	106,500 0 0
70,653 12 2	75,166 12 11	Gold Coast 3% Stock (1954–59)	99	74,414 19 7
572,863 11 2	603,610 0 3	Gold Coast 4½% Stock (1956)	101	609,646 2 3
122,331 18 0	119,924 7 2	Gold Coast 4½% Stock (1960–70)	103⅛	124,121 14 3
92,023 14 7	83,501 10 3	Gold Coast 3% Stock (1963)	97⅛	81,413 19 6
6,700 17 10	6,000 0 0	Grimsby 5% Stock (1962–72)	105	6,300 0 0
25,531 5 0	25,000 0 0	Gateshead 3½% Stock (1960–70)	99½	24,875 0 0
2,760 12 0	3,000 0 0	Huddersfield 3% Stock (1960)	100⅛	3,015 0 0
2,809 7 0	3,000 0 0	Huddersfield 3% Stock (1956–58)	100	3,000 0 0
55,885 18 8	54,771 18 6	Huddersfield 3½% Stock (1958–63)	101	55,319 12 11
45,672,447 13 6	45,781,185 4 4	*Carried forward* .		45,852,919 15 3

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
45,672,447 13 6	45,781,185 4 4	*Brought forward* .		45,852,919 15 3
4,651 1 3	5,295 18 9	Harrogate 3% Stock (1953–63)	98½	5,216 10 0
28,620 17 1	29,078 5 0	Hull 3½% Stock (1958–63)	100	29,078 5 0
119,078 4 2	116,237 11 8	Hull 3½% Stock (1960–70)	99½	115,656 7 11
2,930 13 5	3,104 5 6	Hull 2½% Stock (1970–75)	89½	2,778 6 6
47,500 0 0	50,000 0 0	Hull 2¾% Stock (1960–70)	94	47,000 0 0
4,095 0 0	4,000 0 0	Hastings 3½% Stock (1960–70)	99½	3,980 0 0
12,381 11 7	11,763 19 5	Hertfordshire County Council 3½% Stock (1954–59)	101¾	11,969 16 10
20,733 19 2	20,996 3 1	Ilkeston 3½% Stock (1959–64)	101	21,206 2 4
10,225 7 0	10,860 0 0	Ipswich 3¼% Stock (1964)	100	10,860 0 0
1,432 16 0	1,500 0 0	Ipswich 3½% Stock (1960)	101	1,515 0 0
39,484 10 7	38,720 6 8	Jamaica 3½% Stock (1958–68)	97½	37,752 6 6
105,492 3 0	113,355 7 11	Jamaica 3½% Stock (1968–73)	96½	109,387 19 2
2,426 9 8	2,378 18 1	Jamaica 3½% Stock (1955–59)	101	2,402 13 10
9,150 13 2	8,990 14 4	Kenya 3½% Stock (1957–67)	97½	8,765 19 0
1,315,175 12 1	1,318,469 11 6	Kenya 4½% Stock (1971–78)	105½	1,390,985 8 0
455,091 13 2	434,432 8 3	Kenya 4½% Stock (1961–71)	101½	440,948 18 0
35,141 13 11	35,411 19 2	Kenya 3% Stock (1956–61)	98	34,703 14 5
47,886,058 11 9	47,985,780 13 8	*Carried forward* .		48,127,127 3 9

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost			Nominal Value of Stock			Description	*Latest known market prices of December, 1954	Value of Stock		
£	s.	d.	£	s.	d.			£	s.	d.
47,886,058	11	9	47,985,780	13	8	*Brought forward* .		48,127,127	3	9
191,989	19	4	192,841	4	8	Kenya 2¾% Stock (1971–76)	88½	170,664	9	10
246,456	0	9	269,265	5	0	Kenya 2½% Stock (1965–70)	87½	235,607	1	11
236,025	2	4	242,803	3	9	Kenya 3½% Stock (1973–78)	94½	229,449	0	3
12,201	5	5	12,112	9	6	Kirkcaldy 3½% Stock (1960)	101	12,233	12	0
1,186	13	0	1,300	0	0	Luton 3¼% Stock (1964)	100	1,300	0	0
9,499	2	0	10,000	0	0	Luton 3% Stock (1958)	102	10,200	0	0
3,680	12	0	4,000	0	0	Lanarkshire 3% Stock (1955–60)	100½	4,020	0	0
278,759	16	3	275,000	0	0	London County Consolidated 3½% Stock (1958–68)	101	277,750	0	0
14,597	0	9	14,324	15	2	London County Consolidated 3½% Stock (1968–73)	99	14,181	10	3
130,227	8	7	128,352	3	11	London County Consolidated 3% Stock (1962–67)	97	124,501	12	7
8,472	12	6	8,700	0	0	London County Consolidated 3½% Stock (1952–62)	100	8,700	0	0
140,131	9	9	138,999	18	9	Leeds 3½% Stock (1957–60)	101	140,389	18	9
23,659	5	0	24,743	2	1	Leeds 3¼% Stock (1958–62)	100	24,743	2	1
46,851	19	0	51,500	0	0	Leeds 3% Stock (1955–58)	100	51,500	0	0
65,017	15	5	63,146	10	10	Liverpool 3½% Stock (1960–70)	99½	62,830	16	2
44,201	9	11	41,577	6	8	Liverpool 3½% Stock (1968–78)	98	40,745	15	9
2,344	3	0	2,500	0	0	Liverpool 3% Stock (1955–58)	100	2,500	0	0
80,729	2	3	85,952	17	9	Liverpool 3% Stock (1954–64)	99	85,093	7	2
21,305	15	0	21,850	0	0	Lanarkshire 3% Stock (1954–64)	98	21,413	0	0
18,014	6	0	20,000	0	0	Leicester 3% Stock (1958–63)	99½	19,900	0	0
49,447,103	7	0	49,594,749	11	9	*Carried forward* .		50,018,173	17	11

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
49,447,103 7 0	49,594,749 11 9	*Brought forward* .		50,018,173 17 11
33,773 3 8	34,221 3 8	Mauritius 3½% Stock (1965–68)	97	33,194 10 11
65,241 16 11	68,959 11 11	Mauritius 3½% Stock (1957–62)	99½	68,614 15 11
192,028 13 6	201,884 12 1	Middlesbrough 3¼% Stock (1957–62)	100½	202,894 0 7
22,684 6 4	24,000 0 0	Manchester 3% Stock (1952–55)	100½	24,120 0 0
26,031 5 0	25,000 0 0	Middlesex 3½% Stock (1960–70)	98	24,500 0 0
4,763 2 0	5,000 0 0	Middlesex 3½% Stock (1957–62)	102	5,100 0 0
55,887 18 0	57,500 0 0	Manchester 3% Stock (1958)	101½	58,362 10 0
28,935 3 4	28,363 7 11	Northern Rhodesia 3½% Stock (1955–65)	99½	28,221 11 7
802,188 13 11	806,728 5 9	Nigeria 4% Stock (1963)	101½	818,829 4 3
215,964 10 11	215,995 5 2	Nigeria 2½% Stock (1966–71)	89½	193,315 15 1
427,200 2 8	438,492 12 8	Nigeria 3½% Stock (1964–66)	98½	431,915 4 11
287,756 14 2	285,351 14 3	New Zealand 3½% Stock (1960–64)	100½	286,778 9 5
40,611 7 0	41,900 0 0	Nottingham 3% Stock (1–9–57)	101½	42,528 10 0
3,160 7 0	3,300 0 0	Newcastle-upon-Tyne 3% Stock (1957)	101	3,333 0 0
547,401 18 7	555,002 4 4	Nyasaland 4½% Stock (1971–78)	106½	591,077 7 3
5,227 6 1	4,754 3 3	New Zealand 5% Stock (1956–71)	103	4,896 15 9
83,180 16 2	81,468 7 11	Nigeria 3% Stock (1955)	100½	81,875 14 9
166,215 2 3	165,529 15 10	New Zealand 3% Stock (1952–55)	100	165,529 15 10
5,194 10 3	5,560 19 4	Nyasaland 3% Stock (1954–74)	92½	5,143 17 11
52,474,856 7 9	52,643,761 15 10	*Carried forward* .		54,435,072 4 8

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost			Nominal Value of Stock			Description	*Latest known market prices of December, 1954	Value of Stock		
£	s.	d.	£	s.	d.			£	s.	d.
52,474,856	7	9	52,643,761	15	10	*Brought forward* .		54,435,072	4	8
5,083	0	2	5,000	0	0	Nuneaton 3½% Stock (1953–58)	102½	5,125	0	0
430,475	14	10	448,721	0	11	New Zealand 3½% Stock (1955–60)	101½	455,451	17	3
14,441	7	10	14,056	9	10	Newport 3½% Stock (1960–70)	98	13,775	7	3
566,704	13	6	575,216	3	1	New Zealand 3¼% Stock (1962–65)	97½	560,835	15	0
153,796	12	8	153,753	16	11	New Zealand 3% Stock (1966–68)	96½	148,372	9	3
16,625	12	11	16,625	12	11	New Zealand 3% Stock (1973–77)	93½	15,544	19	7
721,574	2	4	752,596	15	2	Nigeria 3% Stock (1975–77)	89½	673,574	2	0
192,923	4	3	193,405	9	8	Northern Rhodesia 3% Stock (1963–65)	95½	184,702	4	9
38,070	16	6	38,070	16	6	Northern Ireland 3½% Stock (1968–70)	99½	37,880	9	5
4,678,872	3	0	4,578,712	16	1	National War Bonds 2½% (1954–56)	100¼	4,590,159	11	9
735,213	4	4	758,208	14	9	Northern Rhodesia 3½% Stock (1970–72)	96½	731,671	8	8
199,000	0	0	200,000	0	0	Northern Rhodesia 4½% Stock (1965–70)	104½	209,000	0	0
1,452	9	9	1,500	0	0	Nottingham 3% Stock 15–5–57	101	1,515	0	0
15,935	3	7	16,281	3	1	Paisley 3½% Stock (1958–60)	101	16,443	19	4
25,531	5	0	25,000	0	0	Portsmouth 3½% Stock (1960–70)	99½	24,875	0	0
21,150	12	9	20,000	0	0	Portsmouth 3½% Stock (1972–82)	97	19,400	0	0
24,072	3	9	23,781	8	10	Palestine 3% Gtd. Stock (1962–67)	95½	22,711	5	6
53,605	9	5	56,104	11	8	Plymouth 3¼% Stock (1957–62)	100	56,104	11	8
10,500	0	0	10,000	0	0	Plymouth 3½% Stock (1960–70)	99½	9,950	0	0
60,379,884	4	4	60,530,796	15	3	*Carried forward* .		60,512,174	16	1

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost			Nominal Value of Stock			Description	*Latest known market prices of December, 1954	Value of Stock		
£	s.	d.	£	s.	d.			£	s.	d.
60,379,884	4	4	60,530,796	15	3	*Brought forward* .		60,512,174	16	1
35,313	6	10	36,033	2	10	Rochdale 3% Stock (1956–58)	100	36,033	2	10
23,491	5	0	24,600	0	0	Rochdale 3½% Stock (1955–60)	101	24,846	0	0
15,156	13	6	15,648	3	2	Sunderland 3% Stock (1955–58)	100½	15,726	8	0
29,281	12	1	25,970	7	7	Sierra Leone 4½% Stock (1955)	102	26,489	15	9
3,079	19	0	3,300	0	0	Stockton-on-Tees 3% Stock (1960)	100	3,300	0	0
10,053	18	0	11,000	0	0	Stockport 3¼% Stock (1954–64)	100	11,000	0	0
1,434	13	6	1,500	0	0	Sheffield 3% Stock (1956–58)	100½	1,507	10	0
1,795	8	0	2,000	0	0	Salford 3¼% Stock (1954–64)	100	2,000	0	0
1,857	18	0	2,000	0	0	Stirling 3½% Stock (1954–64)	100	2,000	0	0
5,580	16	0	6,000	0	0	Stoke-on-Trent 3½% Stock (1953–63)	101	6,060	0	0
68,790	18	10	64,176	15	11	Southern Rhodesia 4½% Stock (1958–68)	102½	65,781	4	4
43,688	10	6	46,365	4	6	Swansea 3% Stock (1955–65)	98	45,437	18	5
44,850	5	3	46,614	15	3	Stockton-on-Tees 3% Stock (1956–58)	100	46,614	15	3
38,851	7	11	41,924	17	3	South Shields 3% Stock (1956–58)	101	42,344	2	3
109,031	15	2	111,346	19	11	Sheffield 3½% Stock (1963)	101½	113,017	4	0
26,344	17	0	26,922	11	6	South Shields 3¼% Stock (1955–58)	101½	27,326	8	3
8,315	11	9	8,810	10	6	Salford 3% Stock (1954–56)	101½	8,942	13	8
18,370	18	5	18,074	6	5	Southern Rhodesia 3½% Stock (1953–63)	98½	17,803	4	1
36,078	18	10	39,238	7	2	Stoke 3¼% Stock (1958–63)	100	39,238	7	2
1,501,152	17	11	57,762,322	17	4	*Carried forward* .		61,047,643	10	1

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
1,501,152 17 11	57,762,322 17 4	*Brought forward* .		61,047,643 10 1
9,737 17 6	10,893 5 10	Southampton 3% Stock (1959–64)	99	10,784 7 2
452 11 0	500 0 0	Swansea 3% Stock (1955)	100	500 0 0
1,852 10 0	2,000 0 0	Southern Rhodesia 3% Stock (1959–64)	96	1,920 0 0
5,187 12 0	5,590 16 0	Stirling 3¼% Stock (1957–62)	100	5,590 16 0
11,474,241 15 0	11,868,625 6 7	Savings Bonds 3% (1955–65)	100	11,868,625 6 7
80,534 18 9	78,336 3 7	Swansea 3½% Stock (1960–70)	100	78,336 3 7
10,286 18 4	9,927 1 3	Stoke 3½% Stock (1960–70)	99½	9,877 8 7
7,836,996 0 7	8,029,466 15 2	Savings Bonds 3% (1960–70)	96	7,708,288 1 9
1,137,906 0 10	1,164,624 17 2	Savings Bonds 3% (1965–75)	94	1,094,747 7 4
224,303 18 0	223,882 6 3	Sierra Leone 3½% Stock (1968–70)	96	214,927 0 5
1,925,378 16 9	2,283,134 10 4	Savings Bonds 2½% (1964–67)	95	2,168,977 15 10
15,626 1 6	16,500 0 0	Smethwick 3% Stock (1956–58)	101	16,665 0 0
15,344 18 6	16,500 0 0	Salford 3½% Stock (1953–63)	101	16,665 0 0
58,989 5 5	57,748 0 2	Trinidad 3½% Stock (1958–68)	98	56,593 1 0
192,926 15 10	194,378 10 10	Trinidad 3% Stock (1965–70)	93½	181,743 18 9
192,377 15 3	212,035 14 11	Trinidad 3% Stock (1967–71)	92½	196,133 1 4
273,493 13 7	306,070 19 11	Tanganyika 3½% Stock (1970–73)	94½	289,237 1 10
47,137 10 0	45,000 0 0	Tanganyika 4¼% Stock (1967–72)	102½	46,125 0 0
149,982 7 2	146,771 14 6	Trinidad 4% Stock (1973–76)	103	151,174 17 6
84,554,210 3 11	85,734,327 11 9	*Carried forward* .		85,164,555 17 9

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 24—*continued*

Statement of Investments held by the Currency Commissioners on 31st December, 1954—*continued*

Cost	Nominal Value of Stock	Description	*Latest known market prices of December, 1954	Value of Stock
£ s. d.	£ s. d.			£ s. d.
84,554,210 3 11	85,734,327 11 9	*Brought forward*		85,164,555 17 9
20,053 8 3	19,147 6 5	Union of South Africa 4½% Stock (1955–75)	101	19,338 15 11
33,636 10 0	32,906 0 11	Union of South Africa 3½% Stock (1954–59)	99	32,576 19 8
5,668 17 0	5,535 0 7	Union of South Africa 3½% Stock (1953–73)	94	5,202 18 7
33,238 12 10	32,124 0 0	Union of South Africa 3½% Stock (1955–65)	94½	30,357 3 7
60,718 10 4	58,019 13 3	Uganda 3½% Stock (1955–65)	99	57,439 9 4
374,296 15 0	417,217 11 10	Uganda 3½% Stock (1966–69)	96½	402,614 19 6
26,277 10 2	26,254 12 4	West Bromwich Corporation 4½% Stock (1955–65)	102	26,779 14 2
37,477 8 5	37,425 17 7	Weymouth and Melcombe Regd. 3½% Stock (1958)	102	38,174 7 11
5,550,535 18 2	5,453,883 12 4	War Loan 3% (1955–59)	100¾	5,494,787 14 11
11,076 0 4	12,221 16 2	West Bromwich 3% Stock (1954–56)	100	12,221 16 2
15,956 5 9	15,701 2 11	Western Australia 3½% Stock (1935–55)	100	15,701 2 11
3,377 18 8	3,295 10 11	Wakefield 3% Stock (1955)	100½	3,312 0 6
3,380 5 9	3,500 0 0	W. Riding 3½% Stock (1957)	101½	3,552 10 0
20,069 16 10	19,818 19 11	Wakefield 3½% Stock (1958–63)	100	19,818 19 11
90,749,974 1 5	91,871,360 4 11			91,326,433 10 10
at exchange 2*s.* 4*d.* to the dollar =				at exchange 2*s.* 4*d.* to the dollar =
$ c.				$ c.
777,856,920 61				782,798,001 79

*The average mean quotation on the 31st December, 1954, *vide* Stock Exchange List of 31st December, 1954.

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TABLE 25

Nominal Currency Supply in Hong Kong, 1949-1955

Hong Kong dollars

Period[a]	BANKNOTES				Government one-dollar notes	Government subsidiary notes and coins	Total
	Hong Kong and Shanghai	Chartered	Mercantile	Total			
1949 . .	796,376,790	63,065,618	3,779,015	863,221,423	20,117,447·51	8,426,326·81	891,765,197·32
1950 . .	753,376,770	45,179,711	3,945,990	802,502,471	40,925,000·00	10,859,160·12	854,286,631·12
1951 . .	755,876,770	46,143,671	4,322,990	806,343,431	28,135,000·00[b]	14,905,108·29	849,383,539·29
1952 . .	755,876,770	38,414,314	4,147,225	798,438,309	23,475,000·00[b]	17,609,373·24	839,522,682·24
1953 . .	755,876,770	40,486,515	4,380,225	800,743,510	24,771,500·00[b]	17,511,296·24	843,026,306·24
1954 . .	755,742,086	43,807,750	4,316,225	803,866,061	25,021,500·00[b]	17,408,896·24	846,296,457·24
1955 . .	675,742,000	46,747,045	4,146,200	726,635,245			

Sources: Hong Kong Government Gazettes, 1949–1955; Annual Reports of Accountant-General, 1949–1954.

Notes:

a Figures in this table were taken at 31st March of each year.

b 1941 Issue estimated at $2,420,000·00 not included.

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TABLE 26

$1 Note Security Fund—Balance Sheet at 31st March, 1954

LIABILITIES	$ c.	ASSETS	$ c.
$1 Note Security Fund (*a*)	25,021,500 00	Cash at Bank	13,592,851 85
Hong Kong Government	1,377 20	Fixed deposit	2,500,000 00
		Sterling Investments (£548,243 3*s.* 2*d.*)	8,771,890 53
		Accumulated Deficit	158,134 82
	25,022,877 20		25,022,877 20

TABLE 27

$1 Note Security Fund—Income Account as at 31st March, 1954

	$ c.	$ c.		$ c.
To cost of Note Issue:			*By* Dividends, Interest, etc.	549,116 13
Charges met by the Fund	951,144 14		„ Deficit carried down	403,405 21
Charges met by Government in the first instance	1,377 20			
		952,521 34		
		952,521 34		952,521 34
			By Balance as at 1-4-53 b/forward	58,188 19
To deficit brought down		403,405 21	„ Net appreciation on revaluation of investments (at middle market price on 31-3-54)	187,082 20
			„ Balance carried forward	158,134 82
		403,405 21		403,405 21

THE TREASURY,
Hong Kong, 18th May, 1954.

Examined:
P. H. JENNINGS,
Director of Audit.
4th June, 1954.

R. C. LEMMON,
Accountant-General.

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TABLE 28

$1 Note Security Fund—Statement of Sterling Investments as at 31st March, 1954

STOCKS	Nominal Value £ s. d.	Middle Market Price at 31-3-54	Market value £ s. d.	Book Value £ s. d.	Appreciation £ s. d.	Depreciation £ s. d.
Australia 3% (1955/58)	26,786 16 6	99½	26,652 17 10	25,715 7 0	937 10 10	
Australia 3% (1958/60)	10,000 0 0	97½	9,750 0 0	9,500 0 0	250 0 0	
Australia 3% (1965/67)	3,238 5 2	90½	2,930 12 6	2,801 1 10	129 10 8	
Australia 3¼% (1956/61)	25,052 11 10	97½	24,426 5 6	24,050 9 9	375 15 9	
Consolidated Loan 4% (1957 or after)	28,499 16 11	95½	27,217 7 1	25,222 7 3	1,994 19 10	
Conversion Stock 3½% (1969)	28,290 7 0	99½	28,148 18 0	28,290 7 0	—	141 9 0
Cyprus 3½% (1969/71)	3,796 18 9	91½	3,474 4 0	3,455 4 3	18 19 9	
Exchequer Stock 3% (1960)	10,267 0 8	102	10,472 7 6	10,453 2 6	19 5 0	
Funding Loan 4% (1960/90)	25,000 0 0	101½xd	25,375 0 0	24,750 0 0	625 0 0	
Gold Coast 4½% (1956)	2,500 0 0	103	2,575 0 0	2,562 10 0	12 10 0	
Jamaica 3½% (1968/73)	3,457 14 2	93½	3,232 19 2	3,129 4 6	103 14 8	
National War Bonds 2½% (1954/56)	78,090 13 1	100½	78,481 2 2	77,692 9 6	788 12 8	
New Zealand 3% (1952/55)	11,000 0 0	100½	11,055 0 0	11,000 0 0	55 0 0	
Nigeria 3% (1955)	3,574 10 5	100½	3,592 7 10	3,574 10 5	17 17 5	
Nigeria 3½% (1964/66)	50,000 0 0	94½	47,250 0 0	46,000 0 0	1,250 0 0	
Savings Bonds 3% (1955/65)	93,934 7 2	97	91,116 6 7	89,693 12 7	1,422 14 0	
Savings Bonds 3% (1965/75)	7,831 2 7	89½	7,008 17 3	6,695 12 4	313 4 11	
Sierra Leone 3½% (1968/70)	99,672 1 8	93½	93,193 8 0	90,701 11 11	2,491 16 1	
Uganda 3½% (1966/69)	1,322 19 11	93½	1,237 0 0	1,210 10 10	26 9 2	
War Loan 3% (1955/59)	50,052 8 9	102	51,053 9 9	50,052 8 9	1,001 1 0	
	562,367 14 7		548,243 3 2	536,550 10 5	11,834 1 9	141 9 0
	@ 1/3 = $8,997,883·67		@ 1/3 = $8,771,890·53	@ 1/3 = $8,584,808·33	@ 1/3 = $189,345·40	@ 1/3 = $2,263·20

THE TREASURY,
Hong Kong, 18th May, 1954.

Examined:
P. H. JENNINGS,
Director of Audit.
4th June, 1954.

R. C. LEMMON,
Accountant-General.

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TABLE 29

Subsidiary Note and Coinage Funds—Statement of Balances as at the 31st March, 1954

	$	c.	$	c.
Subsidiary Note Security Fund			2,282,210	00
1949 (10 *Cts.*) *Coinage Security Fund:*				
Circulation	7,600,000	00		
Hong Kong Government (*a*)	89,047	08		
			7,689,047	08
1949 (5 *Cts.*) *Coinage Security Fund*			1,750,000	00
Nickel Coinage Security Fund:				
Estimated Circulation			1,626,713	24
1951 (50 *Cts.*) *Coinage Security Fund*			4,149,973	00
			17,497,943	32

	$	c.	$	c.
Subsidiary Note Security Fund:				
Cash at Bank	282,210	00		
Fixed Deposit	2,000,000	00		
			2,282,210	00
1949 (10 *Cts.*) *Coinage Security Fund:*				
Cash at Bank	4,593,033	28		
Fixed Deposit	1,000,000	00		
Sterling Investments at middle market prices on 31-3-54 (£131,000 17*s.* 3*d.*)	2,096,013	80		
			7,689,047	08
1949 (5 *Cts.*) *Coinage Security Fund:*				
Cash at Bank	750,000	00		
Fixed Deposit	1,000,000	00		
			1,750,000	00
Nickel Coinage Security Fund:				
Cash at Bank	126,713	24		
Fixed Deposit	1,500,000	00		
			1,626,713	24
1951 (50 *Cts.*) *Coinage Security Fund:*				
Cash at Bank	2,149,973	00		
Fixed Deposit	2,000,000	00		
			4,149,973	00
			17,497,943	23

Note:

(*a*) This item represents (i) six months dividends on sundry sterling investments amounting to $28,570,25 which were received and invested during the quarter ended 31st March, 1954, (ii) a net loss of $757·59 on sundry transactions in sterling investments during the same quarter and (iii) net appreciation amounting to $61,234·42 on revaluation of stocks at middle market prices on the 31st March, 1954. The net amount should accrue to Hong Kong Government General Revenue and adjustments have accordingly been effected in the financial year 1954/55.

THE TREASURY,
Hong Kong, 18th May, 1954.

Examined:
P. H. JENNINGS,
Director of Audit.
4th June, 1954.

R. C. LEMMON,
Accountant-General.

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TABLE 30

1949 (10 Cents) Coinage Security Fund—Statement of Sterling Investments as at 31st March, 1954

STOCKS	Nominal Value £ s. d.	Middle Market Price at 31-3-54	Market Value £ s. d.	Book Value £ s. d.	Appreciation £ s. d.	Depreciation £ s. d.
Australia 3% (1955/58)	3,162 9 1	99½	3,146 12 10	3,084 16 9	61 16 1	
British Guiana 3½% (1966/68)	497 15 1	92	457 18 8	455 8 11	2 9 9	
4% Consolidated Loan (1957 or after)	11,399 18 9	95½	10,886 18 9	10,088 18 11	797 19 10	
3½% Conversion Stock (1969)	12,141 5 0	99½	12,080 10 10	12,141 5 0	—	60 14 2
Coventry 3½% (1960/64)	8,000 0 0	100½	8,040 0 0	7,760 0 0	280 0 0	
East Africa High Commission 3½% (1966/68)	1,037 12 6	93½	970 3 7	954 12 4	15 11 3	
3% Exchequer (1960)	1,010 1 6	102	1,030 5 6	1,020 3 4	10 2 2	
Funding 2½% (1956/61)	1,639 17 10	97½	1,598 17 11	1,566 1 11	32 16 0	
Funding 4% (1960/90)	11,275 15 3	101½xd	11,444 18 0	11,163 0 1	281 17 11	
Huddersfield 3½% (1958/63)	8,902 0 9	99½	8,857 10 7	8,590 9 4	267 1 3	
Kenya 2½% (1965/70)	8,521 19 5	82½	7,030 12 6	6,774 19 4	255 13 2	
Kenya 2½% (1971/76)	859 16 3	79½	683 11 0	674 19 1	8 11 11	
3% National Defence Loan (1954/58)	553 5 6	101½	561 11 6	557 8 6	4 3 0	
New Zealand 3% (1952/55)	4,368 19 0	100½	4,390 15 11	4,368 19 0	21 16 11	
New Zealand 3½% 1960/64	1,633 13 4	98	1,600 19 10	1,560 3 0	40 16 10	
Nigeria 3% (1955)	2,944 12 9	100½	2,959 7 3	2,949 9 3	9 18 0	
Nigeria 3½% (1964/66)	461 14 4	94½	436 6 5	424 15 7	11 10 10	
3% Savings Bonds (1955/65)	16,000 4 6	97	15,520 4 4	15,140 16 6	379 7 10	
3% Savings Bonds (1960/70)	10,750 5 6	92½	9,944 0 1	9,460 4 10	483 15 3	
3% Savings Bonds (1965/75)	7,953 5 5	89½	7,118 3 6	6,800 0 11	318 2 7	
Sheffield 3½% (1963)	8,000 0 0	99½	7,960 0 0	7,720 0 0	240 0 0	
Southern Rhodesia 3½% (1961/66)	8,000 0 0	95½	7,640 0 0	7,400 0 0	240 0 0	
War Loan 3% (1955/59)	6,511 3 9	102	6,641 8 3	6,517 1 8	124 6 7	
	135,625 15 6		131,000 17 3	127,173 14 3	3,887 17 2	60 14 2
	@ 1/3 = $2,170,012·40		@ 1/3 = $2,096,013·80	@ 1/3 = $2,034,779·38	@ 1/3 = $62,205·75	@ 1/3 = $971·33

THE TREASURY,
Hong Kong, 18th May, 1954.

Examined:
P. H. JENNINGS,
Director of Audit. 4th June, 1954.

R. C. LEMMON,
Accountant-General.

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TABLE 31

Direction of Hong Kong's International Trade

Monthly Averages

Millions of U.S. dollars

Year	All countries		E.C.A.F.E. Region (including Japan)		Japan		Western Europe		U.K.		Eastern Europe		North America		U.S.A.		Latin American Republics		Oceania		Sterling Area		E.C.A.F.E. Sterling countries	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1948 .	101·1	130·8	60·9	53·8	3·1	5·0	8·9	32·6	4·9	19·0	1·0	0·8	11·1	26·7	10·6	24·4	0·1	—	1·7	4·2	27·0	36·3	17·2	10·5
1950 .	164·4	166·4	117·2	88·4	5·3	10·0	15·8	32·4	8·2	17·7	—	0·9	14·6	30·8	14·2	28·6	—	—	1·9	3·5	45·2	49·7	32·5	25·9
1951 .	195·2	214·0	149·4	103·6	8·4	17·2	17·6	70·0	10·4	27·1	—	1·5	7·8	20·2	7·1	16·3	—	—	3·5	4·0	62·1	68·0	44·6	32·3
1952 .	127·4	165·7	100·2	90·2	5·4	21·1	9·8	50·6	3·6	20·6	—	0·1	5·8	13·1	5·0	9·6	—	—	0·9	2·4	32·0	44·8	24·8	18·0
1953 .	120·8	170·6	90·0	93·4	9·7	16·8	10·5	50·9	5·2	20·8	—	1·0	4·3	12·5	3·3	9·9	—	0·4	2·1	2·5	32·2	45·4	20·1	18·5
1954 .	120·3	164·9	72·5	76·1	5·0	20·3	10·6	42·4	7·1	16·2	—	1·0	5·0	14·8	4·1	12·4	—	5·0	3·0	2·8	36·2	36·6	19·4	14·3

Source: E.C.A.F.E., Economic Survey, 1954

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TABLE 32

Value of Hong Kong's Imports and Exports and Balance of Trade

Monthly Averages

Millions of Hong Kong dollars

	1938	1948	1951	1952	1953	1954
Imports	52	173	408	316	323	286
Exports	51	134	372	243	228	202
Balance	— 1	— 39	— 36	— 73	— 95	— 84

Source: E.C.A.F.E., Economic Survey, 1954

TABLE 33

Value of Exports of Hong Kong Products by Commodities (January-June, 1955)

Commodities	Value
	HK$
Cotton piece goods	90,047,404
Cotton yarns	45,230,983
Footwear	36,624,775
Shirts	30,495,673
Household utensils of iron and steel, enamelled	27,474,084
Cotton singlets	26,278,883
Electric torches	25,240,940
Foodstuffs (including beverages)	7,252,745
Lacquers, varnishes and paints	6,206,898
Towels, not embroidered	5,445,568
Metal lanterns	5,436,718
Torch batteries	4,842,246
Iron and steel bars and rounds	4,357,842
Bed linen, table linen and toilet linen (including towels), embroidered	3,744,583
Vacuum flasks and jugs, complete	3,600,304
Articles made of plastics	3,589,220
Outerwear, embroidered	3,520,051
Household utensils of aluminium	3,331,674
Torch bulbs	2,735,964
Cement	2,337,478
Iron ore	1,847,700
Matches	1,631,852
Articles of clothing (e.g. handkerchiefs, shawls, etc.), embroidered, n.e.s.	1,226,288
Underwear and nightwear, embroidered	1,097,657
Cigarettes	287,419
Seagrass	71,482
Tungsten ore (wolframite) and concentrates	48,787
TOTAL	344,005,218

Source: Trade Bulletin of the Department of Commerce and Industry (July, 1955).

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TABLE 34

Value of Exports of Hong Kong Products by Countries (January-June, 1955)

Countries	Value
	HK$
United Kingdom	65,416,605
Malaya	42,992,568
Indonesia	35,682,303
Thailand	34,255,220
West Africa (British)	15,258,535
African Countries, Other	13,592,956
Philippines	11,498,407
East Africa (British)	10,163,663
Burma	9,812,033
Korea, South	8,595,382
South Africa	8,188,751
Australia	7,491,709
Indo-China	7,150,820
British Commonwealth, Other	6,520,181
U.S.A.	5,740,019
South American Countries, Other	5,614,362
Central Africa (British)	5,287,677
Middle and Near East Countries	5,168,338
Canada	5,069,570
Central America	5,013,305
British West Indies	4,703,892
North Borneo	3,895,203
India	3,728,512
New Zealand	3,314,169
Ceylon	2,684,184
Japan	2,234,893
Oceania, n.e.s.	1,958,623
Pakistan	1,955,608
Macao	1,627,118
United States Oceania	1,301,011
British Oceania	1,233,563
Sweden	1,046,883
Germany (Western)	988,978
Belgium	921,188
Netherlands	897,000
France	733,646
Denmark	665,852
Formosa (Taiwan)	360,535
Norway	273,723
Switzerland	195,833
Egypt	194,877
Italy	192,113
European Countries, Other	179,342
Central Asian Countries	76,312
Argentina	75,042
China (excluding Formosa)	32,150
Turkey	20,764
Austria	1,800
TOTAL	344,005,218

Source: Trade Bulletin of the Department of Commerce and Industry, Hong Kong (July, 1955)

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